MASTER IN MANAGEMENT STUDIES

SEMESTER - IV (CBCS)

HR AUDIT

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Semester	:	**IV - Elective**
Title of the Subject / course	:	**HR Audit**
Course Code	:	

Credits	**:**	**4**	**Duration in Hrs**	**:**	**40**

Learning Objectives

	Understanding HR Accounting and Audit with study of various instruments such as HR Score Card. Learning to calculate HR cost, investments and return on investments and preparing HR Audit Reports

Prerequisites if any	
Connections with Subjects in the current or Future courses	

Module

Sr. No.	Content	Activity	Learning Outcome
1	Introduction • HR as assets • Definition of Human resource accounting • HRA – concepts, methods and applications • Human Resource accounting vs. Other Accounting	Case Study/ Role-play/ Drama/ Group Discussion	Introduction to Human Resource Accounting
2	Human Resource Costs / Investments • Human Resource Costs – the Monetary Value Approach, Non-Monetary value Based Approaches • Investment in employees -- Human resource Development	Case Study/ Role-play/ Drama/ Group Discussion	Learning to calculate human resource cost/investments

3	Return on Investments • Development of HR ROI into through High Performance Employees • Measurement of Group Value – The Likert and Bowers Model, Hermanson's unpurchased goodwill model	Case Study/ Role-play/ Drama/ Group Discussion	Learning to calculate human resource return on investments
4	Human Resource Accounting System • Developing Human Resource Accounting System Implementation of Human resource Accounting system • c. Integration with other accounting system	Case Study/ Role-play/ Drama/ Group Discussion	Learning development and implementation of HR accounting system
5	Human Resource Score Card • HR Score Card, constituents of HR Scorecard • HR score card as an instrument in HR Audit	Case Study/ Role-play/ Drama/ Group Discussion	Introduction of HR Score Card and its implementation
6	Human Resource Audit • Role of Human resource audit in business environment • HR Audit Objectives, Concepts, Components, Need, Benefits, Importance • Methodology and instruments of HR Audit • The audit process and Issues in HR Audit	Case Study/ Role-play/ Drama/ Group Discussion	Introduction to HR audit
7	Human Resource Audit Report • HR Audit Report – purpose • Report Design – Preparation of report • Use of HR Audit report for business improvement	Case Study/ Role-play/ Drama/ Group Discussion	Learning to prepare HR Audit Report
8	Recent Advancements in Human Resource Audit and Accounting	Case Study/ Role-play/ Drama/ Group Discussion	Exploring recent advancements in Human Resource Audit and Accounting

9	Case Studies and Presentations	Case Study/ Role-play/ Drama/ Group Discussion	

Text books

1	Personnel & Human Resource Management – P. Subba Rao.

Reference books

1	Human Resource and Audit – T. V. Rao
2	Human Resource System – T. V. Rao & Udai Pareek

Assessment

Internal	40%
Semester end	60%

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1

HUMAN RESOURCE ACCOUNTING

Unit Structure

1.1 OBJECTIVES

After studying this module, you should be able to :

- Understand the concept of HR as assets
- Know the concepts of HRA
- Study the relevance of methods and applications of HRA
- Differentiate between Human Resource accounting vs. Other Accounting

1.2 INTRODUCTION

Human resources are considered as the precious assets of the organizations. In the present era, human resources are not being considered simply as wage earning labor or salary earning employees. They are considered as an asset. The concept of management depicts the importance of 5 Ms for any activity. The five Ms of the management are -

- Man
- Material
- Machine
- Money
- Method

Out of these 5Ms, only man is the living asset while rest are the non-living assets. Humans are considered as the most purposeful resource of the organization. The subject matter of human resource management deals with the acquisition and maintenance of the most purposeful resource of the organization. The importance of human resource management is rising due to multiple changes happening around the world.

The approach is to consider the human as the most important resource and to humanize this aspect as the central theme of this subject. Human resource development is an important dimension of human resource management. Acquiring, dealing and developing people are the key indicators of this subject. Organizations are putting efforts to increase the productivity of the employees by simply treating them well. Treating them well involves a systematic process of Acquiring/Procuring, Training, Developing, Maintaining and Controlling the human resource of the organization.

At the organizational level, committees are set up to study and understand the problems of the human resource. The shifting subject matter of human resource management is now on human resource development. In simple words, the more importance is now given on development of human resources rather than maintenance. For many organizations, developing human resources is a major task. For this purpose, many methods and procedures are evolved to keep the track of human resources.

Human resource accounting, Human resource audit, Human resource research and Human resource information system are some of the important topics which come under the subject matter of human resource management. Human resource development is now viewed as the fundamental aspect not only for organization but also for the governments of the various nations across the world.

People are an important element in any country. Their development should be considered as the prime duty. In our country, there is a separate Ministry for developing human resources known as the Ministry of Education. Earlier, it was known as the Ministry of Human Resource Development. The Ministry is responsible for planned development in the field of education and research. The domain of the work is very vast and comprehensive.

1.3 HR AS ASSETS

Human resources are an intangible asset. Their emotions and feelings are intangible. Under the field of human resource management. Human beings are treated as assets. The information, skills, ideas and intuition are managed properly to extract the best from the employees. In few organizations, the employees proved themselves to be a cost or liability for an organization. If managed and trained properly, the human resources are said to be an asset for the organization.

Learning how to maximize the capacity of the human resource to the fullest is quite a big challenge for an organization.

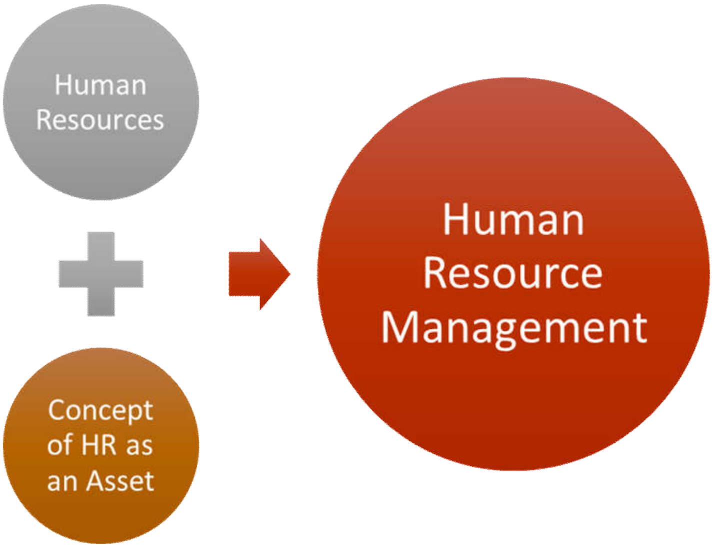

Fig. 1.1: Concept of HR as an Asset

The above figure depicts the concept of human resources as an asset to the organization. Proper management and development plans are required to maintain this important resource. The concept of human resource accounting helps the HR manager to assess the cost and value of an employee in an and for an organization.

There is one term in human resource management known as Human Capital. Human capital refers to ascertaining the economic value of knowledge, skills and intelligence of employees. The companies invest more and more money to increase the productivity of the employees. The experience, skills and knowledge of the employees is considered as priceless and cannot be measured and shown in any financial statement. But, it can be evaluated in terms of the work done by the employees. Performance appraisal is a tool through which the managers can assess the performance of the employees.

By investing in employees through training and development programs, an employer can increase the worth of the employees. Labour turnover and absenteeism can be reduced by applying the concepts of human capital. Human resources research, human resource audit and human resource accounting are some important aspects which help organizations to assess the economic value of an employee.

The factors of production have the feature of mobility. So is the case with human resources. Human resources tend to move from one place to another place if better opportunities are found. It is the biggest challenge for a manager to stop this mobility. Once the employee is placed after the process of recruitment and selection, he is supposed to get the training for his/her job. Once his/her training is completed, the human resource is expected to produce the work assigned by the employers in the same manner which was incorporated in them during training.

It has been observed that after getting the lucrative proposals, the employees leave their present organization and join another leaving their space unoccupied. Again the company will initiate the process of human resource planning to ascertain the number of persons acquired and required for the job. This empty space takes time to be filled again by the human resource department. The process is considered quite tedious, time-consuming and expensive in terms of time, money and effort.

The concept of return on investment is an important element in the field of human resource management. The investment done on the employees and the returns yield by them is always calculated on a front basis. Every organization gives their best to utilize the capacities of their employees in an organization.

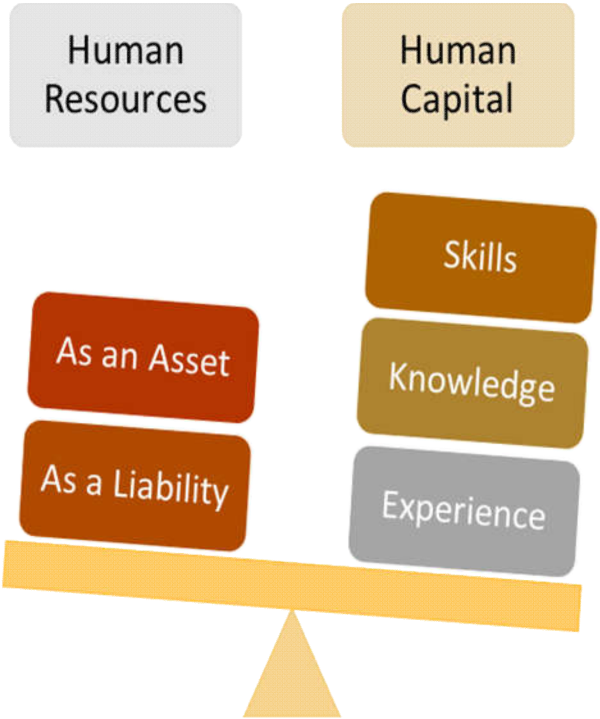

Fig.1.2: Concept of Human Resources as Human Capital

1.4 CONCEPT AND DEFINITION OF HUMAN RESOURCE ACCOUNTING

1.4.1 MEANING AND CONCEPTS

Accounting in general sense deals with the process of keeping the financial accounts. The data is organized and summarized in a systematic way for business. The financial decisions are taken on the basis of activity of receipts and payments. In the field of human resource management, the concept of human resource accounting does the same. The decisions related to the personnel policies are taken on the basis of human resource accounting. In the next paragraph, we will see the actual meaning and concept of human resource accounting.

The subject matter of human resource accounting deals with the human resources and their economic value in an organization. The concept of human resource accounting can be categorized into two parts - the narrow concept and the broad concept. The narrow concept deals with the budget thing while the broad concept deals with more activities.

The narrow concept of human resource accounting deals with identifying and allocating budget on human resources. This concept also helps to evaluate the basic cost associated with the employees and the value contributed by them for organization.

Fig. 1.3: Narrow Concept of Human Resource Management

The broader concept of human resource accounting deals with something more comprehensive. Human resource accounting refers to the process of accumulating, evaluating and reporting data about the cost incurred on employees and the value generated by them in the company's profitability. The broad term also includes the expenses incurred on recruitment, selection, employees training and management development, compensation and benefits etc.

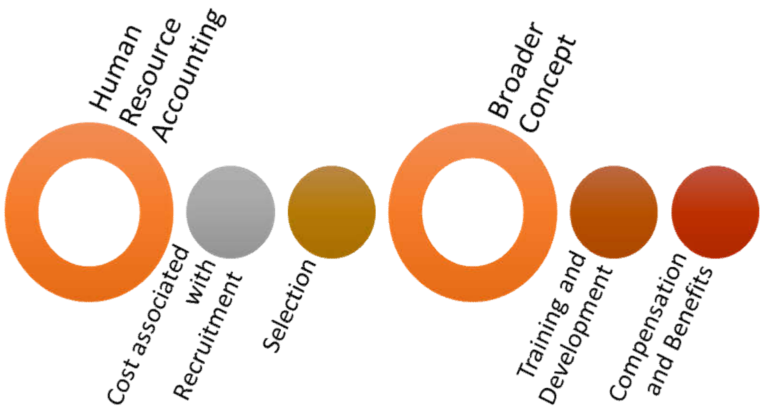

Fig. 1.4: The broad concept of Human Resource Accounting

In general terms, human resource accounting is measuring the financial cost incurred on an employee and also evaluating the value generated by the employee in the profitability of the business. It is the process of identifying the budget associated with the employees when it comes to recruitment, training, development and compensation.

1.4.2 DEFINITIONS

Many educationists and philanthropists have contributed their work in defining human resource accounting. Let's have a look on some of the important definitions of the human resource accounting -

R. L. Woddruff defines human resource accounting as, "It is an attempt to identify and report investments which are made in the resources of the organization. The investments are not presently recorded or accounted for traditional accounting practices."

According to the American Association of Accountants, "Human Resource Accounting is the process of identifying and measuring data about human resources and communicating their information to the interested parties."

In simple words, the concept of human resource accounting can be illustrated as

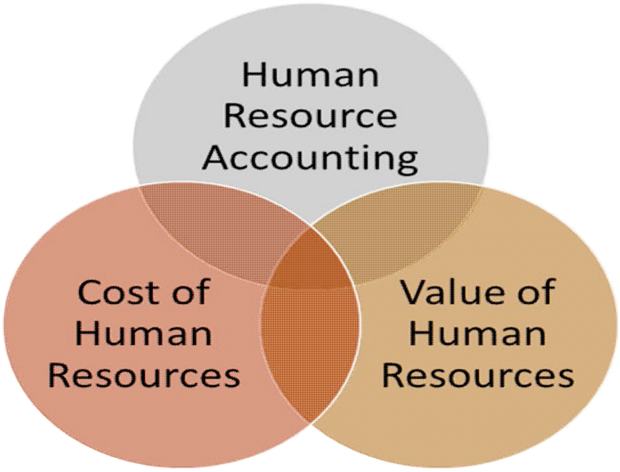

Fig. 1.5: General Concept of Human Resource Accounting

1.4.3 FEATURES OF HUMAN RESOURCE ACCOUNTING

The above explanation explains the concept of human resource accounting. The features of the concept helps to provide a better idea about the concept in a detailed way. The following are the key features of human resource accounting -

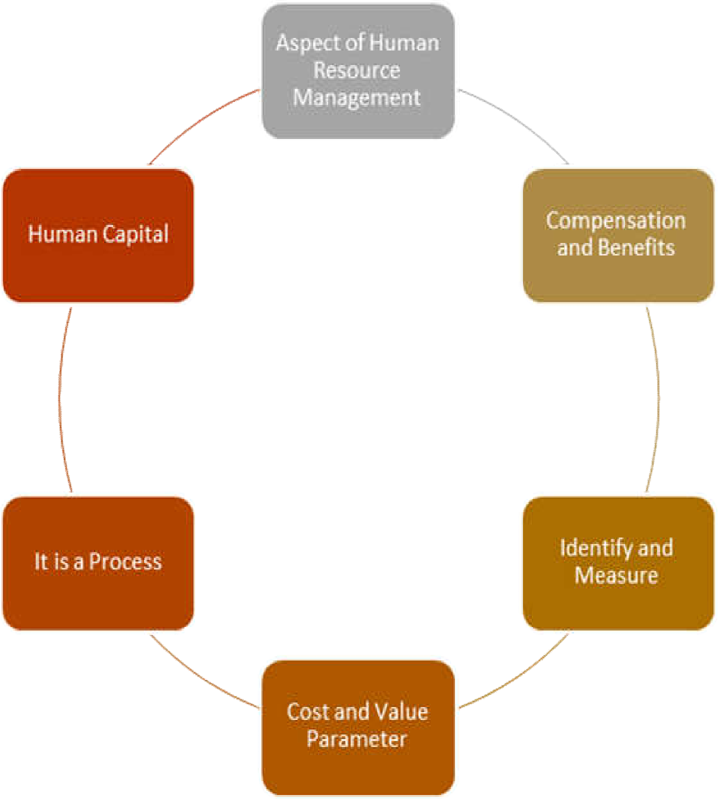

Fig.1.6: Features of Human Resource Accounting

The explanation of the points mentioned in the above figure is given below -

01. Aspect of Human Resource Management

Human resource accounting is an important aspect of human resource management. The decisions related to the personnel policies are taken on the basis of human resource accounting. The costing related to joining and leaving the organization is taken for the purpose of calculation which is usually unaccounted for.

02. Human Capital

As mentioned earlier, human capital refers to ascertaining the economic value of knowledge, skills and intelligence of employees. The companies invest more and more money to increase the productivity of the employees. It also includes the cost associated with leaves, sickness, absenteeism and turnover of the employees.

03. It is a Process

Human resource accounting is a process of measuring the financial cost incurred on an employee and also evaluating the value generated by the employee in the profitability of the business. It is the process of identifying the budget associated with the employees when it comes to recruitment, training, development and compensation.

04. Cost and Value Parameter

The cost of hiring and firing employees. The benefits associated with the calculation of these costs is an important aspect of human resource accounting. Along with the cost, the value generated by the employees in the profitability of the business is also taken into consideration.

05. Identify and Measure

This feature explains the journey of identifying and measuring the worth of an employee in terms of work done by them. The concept of return on investment is an important element in the field of human resource management. The investment done on the employees and the returns yield by them is always calculated on a front basis. That's why identification and measurement of cost and value is considered under this head.

06. Compensation and Benefits

The need for human resource accounting was felt because the information like income and expenditure in conventional accounting was not available. The subject matter of human resource accounting deals with the human resources and their economic value in an organization. The cost related from hiring to firing is associated with this concept.

1.5 HRA - CONCEPTS, METHODS AND APPLICATIONS

1.5.1 CONCEPTS

Human resource accounting is measuring the financial cost incurred on an employee and also evaluating the value generated by the employee in the profitability of the business. It is the process of identifying the budget associated with the employees when it comes to recruitment, training, development and compensation.

The following are the important concepts which need to be understood under the head of human resource accounting -

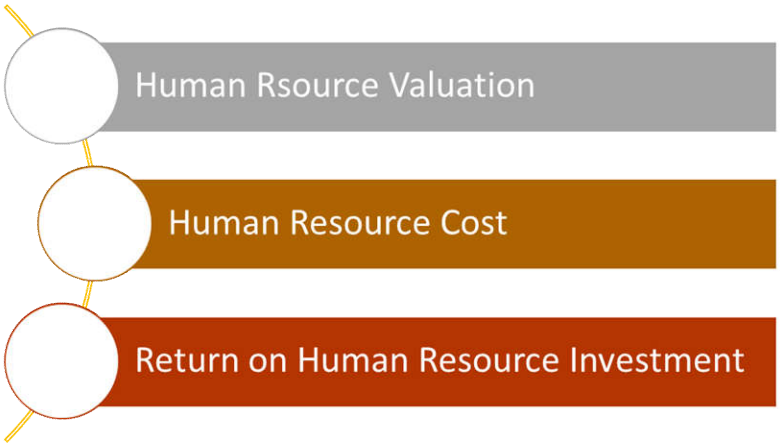

Fig. 1.7: Concepts of Human Resource Management

01. Human Resource Valuation

Human resource valuation refers to an act of calculating the values of human resource. The act involves supplying the information to the interested parties. The next move involves the calculation of knowing the worth of the employees. Some employees become a liability if not managed properly. The valuation requires the cost associated with the employee and the contribution from the employees.

02. Human Resource Cost

As the name suggests, the cost associated with the human resource is known as human resource cost. The cost includes the cost associated with the recruitment, selection, placement, induction, training, development, compensation and benefits. It also includes the cost of labor absenteeism and labor turnover.

03. Return on Human Resource Investment

The concept of return on investment is a popular concept. When something is invested in employees, the return is always expected in a positive form. If the negative returns are coming in terms of employees productivity and performance, the employee will be treated as liability. The return is always assessed and evaluated.

1.5.2 METHODS OF HUMAN RESOURCE ACCOUNTING

There are several methods of calculating the economic value of the employees. The following are some of the methods of human resource accounting -

Fig. 1.8: Methods of Human Resource Accounting

01. Present Value Method

This method of human resource accounting calculates the earnings of the organization after discounting the net contributions of the employees. The earnings are discounted to have the present value of human resources.

The gross and net contributions which are difficult to ascertain are calculated for the purpose of accounting.

02. Historical Cost Method

The historical cost method is developed by Rensis Likert. The historical cost method as the name suggests is a simple method. This method is based on the traditional methods of accounting. The concept of cost and revenue is used to ascertain cost. The proper match between the cost incurred on an employee and the revenue generated by his/her work is matched or balanced.

03. Opportunity Cost Method

Opportunity cost is an economic concept. In economics, opportunity cost is the cost associated with the use of best alternative uses. If we choose one alternative and lose others. The cost which was supposed to be incurred by us will be known as opportunity cost. The opportunity lost is opportunity cost.

The same model is used in calculating human resource accounting subjects. Under this method, the bidding method is used. First, the value of human value is determined. Then, the value of human resources in their alternative use is determined. The method also helps to evaluate the next best alternative use of human resources and cost associated with them.

04. Economic Value Method

Calculating the present economic value is an important factor to be considered in human resource accounting. Under this method, the payment which will be made to the human resources in the entire period of their career with the organization is calculated. The calculations are done on the basis of estimates. The discounted method is used to get the present economic value.

05. Replacement Cost Method

Replacement cost refers to the cost of filling the place of a person who left the organization. This cost includes the cost related to recruitment, selection, training and development. This cost is calculated with a view to avoid the labor absenteeism and turnover in an organization.

1.5.3 APPLICATIONS OF HUMAN RESOURCE ACCOUNTING

The concept of human resource accounting reveals the valuation of an employee in an organization. The contribution of an employee and the cost of maintaining his/her job is assessed.

In the following areas, the application of human resource management is proved to be helpful -

Fig. 1.9: Applications of Human Resource Accounting

The following is the explanation of the above points -

01. Determination of ROI

ROI stands for return on investment. It helps to calculate the return associated with the cost of the employees and the return generated by them. It is a system that studies the cost associated with the employees and the return given by the employees. The compensation paid to the employees is termed as investment and the productivity produced by them is considered as the return (output).

02. **Employee Benefits**

The concept of human resource accounting covers the health insurance schemes and retirement benefits. The cost associated with the recruitment, selection, induction, training and development comes under this. The benefits provided to the employees by the company is a part of calculation in the field of human resource accounting.

03. Compensation Management

Human resource accounting helps management in deciding the policies related to compensation management. It provides the information with regard to the cost associated with the employee and the reward and returns given by him/her. We can say that it helps to determine the various personnel policies like promotion, demotion, transfer, training or development etc.

04. Recruitment and Selection

The decisions related to recruitment and selection can be improved with the help of human resource accounting. It provides a bridge and helps management in employing the human resource for the organization. The decisions of recruitment and selection are taken by considering the cost of the job and the benefits associated with it. The key employees by proper scrutiny can be recruited, selected and placed.

05. HR System

The base of any organization is their HR system. The more it is strong, the more convenient and easy it will be to handle the human resources of the organization. A strong HR system discloses the strength of the organization in the form of their human resources.

06. Ascertaining Results

As mentioned earlier, human resource accounting provides a base to ascertain the cost and benefits related to any job. The performance of employees helps to determine the benefits while the organization calculates cost from hiring to firing people. The ascertainment of results is an important process to identify the key employees and how an organization should take measures to retain them.

1.6 HUMAN RESOURCE ACCOUNTING vs. OTHER ACCOUNTING

Accounting in general sense deals with the process of keeping the financial accounts. The data is organized and summarized in a systematic way for business. The financial decisions are taken on the basis of activity of receipts and payments. In the field of human resource management, the concept of human resource accounting does the same. The decisions related to the personnel policies are taken on the basis of human resource accounting.

The subject matter of human resource accounting deals with the human resources and their economic value in an organization. The concept of human resource accounting can be categorized into two parts - the narrow concept and the broad concept. The narrow concept deals with the budget thing while the broad concept deals with more activities.

The narrow concept of human resource accounting deals with identifying and allocating budget on human resources. This concept also helps to evaluate the basic cost associated with the employees and the value contributed by them for organization. The broader concept of human resource accounting deals with something more comprehensive. Human resource accounting refers to the process of accumulating, evaluating and reporting data about the cost incurred on employees and the value generated by them in the company's profitability. The broad term also includes the expenses incurred on recruitment, selection, employees training and management development, compensation and benefits etc.

While, the other accounting deals not only with the human resource department but also it covers the receipts and payments related to the other department as well. The other accountancy are part of conventional accounting practices based on conventions and principles. The other accounting covers -

- Financial Accounting
- Cost Accounting
- Management Accounting

Financial accounting deals with the determination of record transactions and calculation of profit and losses in any financial year. Cost accounting deals with the ascertainment of cost allocation, accumulation and transaction. Management accounting helps the management in taking the beneficial decisions for the organization.

1.8 SUMMARY

- Humans are considered as the most purposeful resource of the organization. The subject matter of human resource management deals with the acquisition and maintenance of the most purposeful resource of the organization. The importance of human resource management is rising due to multiple changes happening around the world.

- Human resources are an intangible asset. Their emotions and feelings are intangible. Under the field of human resource management. Human beings are treated as assets. The information, skills, ideas and intuition are managed properly to extract the best from the employees. In few organizations, the employees proved themselves to be a cost or liability for an organization. If managed and trained properly, the human resources are said to be an asset for the organization.

- The subject matter of human resource accounting deals with the human resources and their economic value in an organization. The concept of human resource accounting can be categorized into two parts - the narrow concept and the broad concept. The narrow concept deals with the budget thing while the broad concept deals with more activities.

- In general terms, human resource accounting is measuring the financial cost incurred on an employee and also evaluating the value generated by the employee in the profitability of the business. It is the process of identifying the budget associated with the employees when it comes to recruitment, training, development and compensation.
- Accounting in general sense deals with the process of keeping the financial accounts. The data is organized and summarized in a systematic way for business. The financial decisions are taken on the basis of activity of receipts and payments. In the field of human resource management, the concept of human resource accounting does the same. The decisions related to the personnel policies are taken on the basis of human resource accounting.
- There are various concepts, methods and applications of human resource accounting. The concept of human resource accounting reveals the valuation of an employee in an organization. The contribution of an employee and the cost of maintaining his/her job is assessed.

1.9 SELF-ASSESSMENT TEST

1. What is human resource accounting? How does it differ from other accounting?
2. Explain the various concepts of human resource accounting.
3. Describe the importance and application of human resource accounting.
4. Elaborate the various methods of human resource accounting.
5. Write a note on the role of human resource accounting in the field of human resource management.

Suggested for Reading -

Human Resource Management by Dr. S.S. Khanka

Human Resource Management by Dr. A.M. Sheikh

https://www.whatishumanresource.com/Human-Resource--accounting

https://www.charteredclub.com/what-is-human-resource-accounting/

https://mgcub.ac.in/pdf/material/20200429091257abb1a648cd.pdf

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2

HUMAN RESOURCE COSTS/ INVESTMENTS

Unit Structure

2.1 OBJECTIVES

After studying this module, you should be able to :

- Understand the concept of HR as costs/investment
- Know the conceptual framework of the topic
- Study the importance of approaches
- Analyze why is investment in employees important?
- Know the relevance of human resource development

2.2 INTRODUCTION

People are an important element in any country. Their development should be considered as the prime duty. Human resources are considered as the precious assets of the organizations. The subject matter of human resource management deals with the acquisition and maintenance of the most purposeful resource of the organization. The importance of human resource management is rising due to multiple changes happening around the world. Human resource development is now viewed as the fundamental aspect not only for organization but also for the governments of the various nations across the world.

The concept of considering human resources as a cost or investment is a matter of debate. In a business environment, humans are considered as the most important resource of the organization. Human capital refers to ascertaining the economic value of knowledge, skills and intelligence of employees. The companies invest more and more money to increase the productivity of the employees. The experience, skills and knowledge of the employees is considered as priceless and cannot be measured and shown in any financial statement. But, it can be evaluated in terms of the work done by the employees.

Doing the investment on humans is a part of human capital. Their development and maintenance is an important part of the organization. By investing in employees through training and development programs, an employer can increase the worth of the employees. Employees are treated as assets in many organizations. But if the cost incurred on them is higher than the returns generated by them, they are supposed to be called as the liability for the organization.

The concept of human resource costs deals with the cost associated with the -

01. Recruitment

02. Selection

03. Induction

04. Placement

05. Employees exit etc.

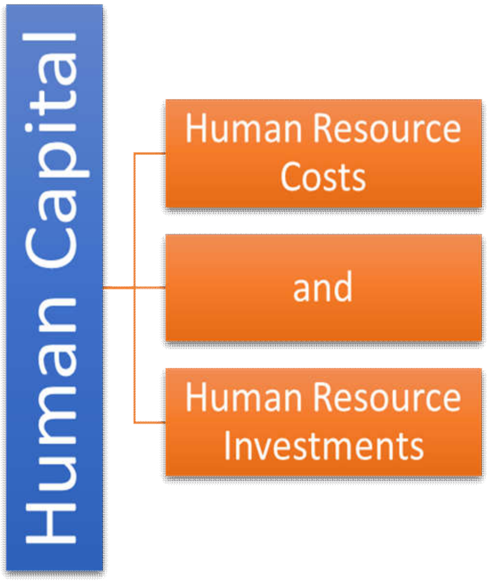

Fig. 2.1: Aspects of Human Capital

As mentioned earlier, human capital refers to ascertaining the economic value of knowledge, skills and intelligence of employees. In the next section of this chapter, we will see the meaning, concepts and examples of human resource costs and investments.

2.3 HUMAN RESOURCE COSTS AND INVESTMENTS

2.3.1 HUMAN RESOURCE COSTS

The cost associated with recruiting, selecting, inducting, placing, training and retaining employees is human resource costs. It is important to balance these costs with the returns and benefits. The concept of human resource cost studies the behavior of costs. The HR criteria are taken into consideration. The cost related to manpower creates a challenge for every organization.

As the name suggests, the cost associated with the human resource is known as human resource cost. The cost includes the cost associated with the recruitment, selection, placement, induction, training, development, compensation and benefits. It also includes the cost of labor absenteeism and labor turnover.

It has become difficult to manage the costs related to certain parameters. In relation to one or more parameters, the cost is analyzed to study the behavior of expenses and the income generated by the employees. From and within the organization, the human resource cost is incurred to procure, train, maintain and manage the human resources of the organization. The human resource cost includes all types of costs.

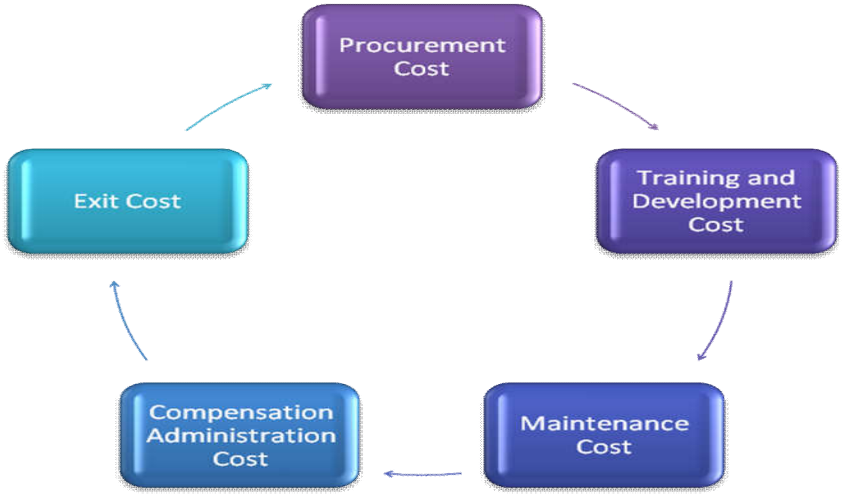

Fig. 2.1: Elements of Human Resource Cost

- **Procurement Cost**

The procurement cost refers to the cost of procuring the human resource. The cost includes the expenses related to hiring the people. The administrative expenses, advertising cost, agency fees, recruitment costs, interview costs, placement and induction costs etc.

Fig. 2.3: Elements of Procurement Cost

- **Training and Development Cost**

The training and development costs refers to the cost related to the training and development of the employees. The costs are incurred on developing the knowledge and skills among employees. The skills and knowledge are used to perform the various tasks related to the specific, particular or a general job.

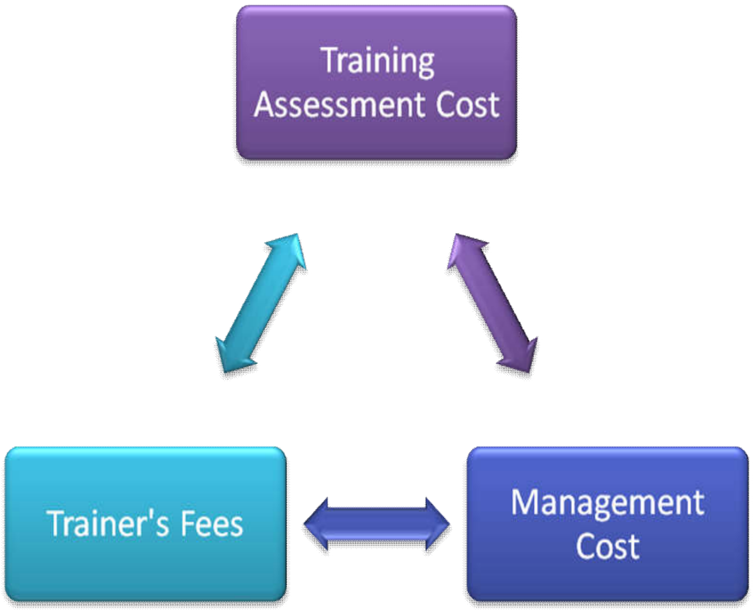

Fig. 2.4: Elements of Training and Development Cost

- **Maintenance Cost**

The maintenance cost is also known as employee retention cost. The cost is associated with wages and salary levels, employee benefits and other related costs. In this competitive world, it is important to provide a good salary to the employees. A good wages and salary structure helps to retain the good employees and it also helps to attract the potential and capable candidates.

The maintenance cost also deals with offering training facilities, tours and trips, birthday celebrations, special day celebrations etc. These practices are considered effective when it comes to retaining the best employees.

Fig. 2.5: Elements of Maintenance Cost

- **Compensation Administration Cost**

Though the part of compensation was covered in maintenance cost, it is one of the important elements of human resource cost. Human resource cost is related to measuring the financial cost incurred on an employee and also evaluating the value generated by the employee in the profitability of the business. It is the process of identifying the budget associated with the employees when it comes to compensation.

The wages and salary administration covers the cost related to ascertaining wages structure, pay scales, bonuses, incentives and fringe benefits.

Fig. 2.6: Elements of Compensation Administration Management

- **Exit Cost**

The exit or separation cost refers to the cost associated when the employee leaves an organization or when the organization asks them to leave (termination). When an employee is appointed, he is recruited and selected first. After placing the employee on the job, he is inducted and trained on the various aspects related to the job.

When he leaves or is terminated, there is a cost which the organization bears and that cost is known as exit costs. His vacant place will need the whole process to relocate the new employee for the job.

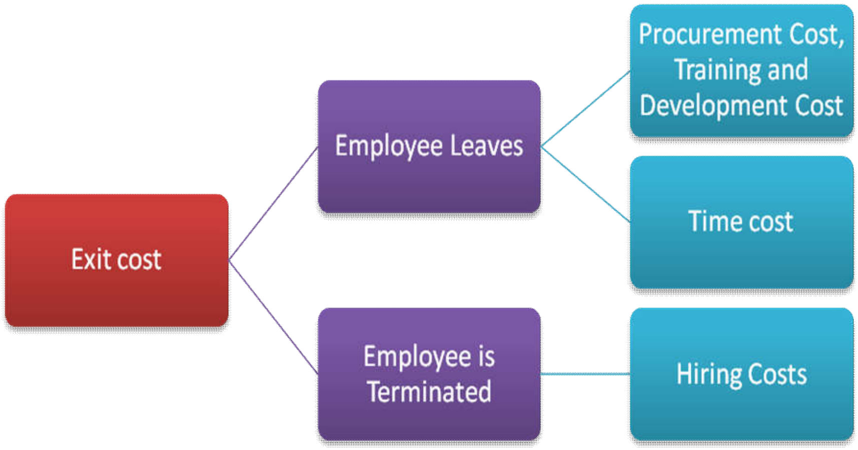

Fig. 2.7: Elements of Exit Cost

2.3.2 HUMAN RESOURCE INVESTMENTS

Human resources are an intangible asset. Their emotions and feelings are intangible. Under the field of human resource management. Human beings are treated as assets. The information, skills, ideas and intuition are managed properly to extract the best from the employees. In few organizations, the employees proved themselves to be a cost or liability for an organization. If managed and trained properly, the human resources are said to be an asset for the organization.

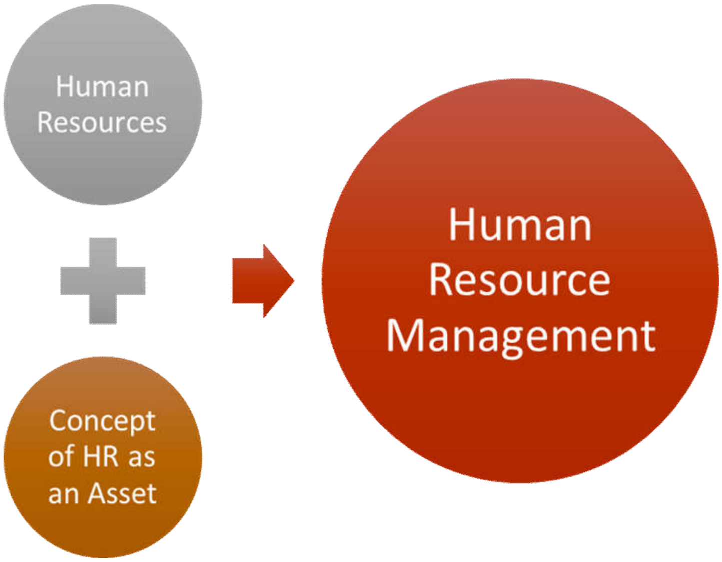

Fig. 2.8: Concept of HR as an Asset

The above figure depicts the concept of human resources as an asset to the organization. Proper management and development plans are required to maintain this important resource. The concept of human resource accounting helps the HR manager to assess the cost and value of an employee in and for an organization.

Human resource investment is an act of investing the resources on the education, training and development of the employees of an organization. There is one term in human resource management known as Human Capital. Human capital refers to ascertaining the economic value of knowledge, skills and intelligence of employees. The companies invest more and more money to increase the productivity of the employees. The experience, skills and knowledge of the employees is considered as priceless and cannot be measured and shown in any financial statement. But, it can be evaluated in terms of the work done by the employees. Performance appraisal is a tool through which the managers can assess the performance of the employees.

By investing in employees through training and development programs, an employer can increase the worth of the employees. Labour turnover and absenteeism can be reduced by applying the concepts of human capital. Human resources research, human resource audit and human resource accounting are some important aspects which help organizations to assess the economic value of an employee.

The factors of production have the feature of mobility. So is the case with human resources. Human resources tend to move from one place to another place if better opportunities are found. It is the biggest challenge for a manager to stop this mobility. Once the employee is placed after the process of recruitment and selection, he is supposed to get the training for his/her job. Once his/her training is completed, the human resource is expected to produce the work assigned by the employers in the same manner which was incorporated in them during training.

It has been observed that after getting the lucrative proposals, the employees leave their present organization and join another leaving their space unoccupied. Again the company will initiate the process of human resource planning to ascertain the number of persons acquired and required for the job. This empty space takes time to be filled again by the human resource department. The process is considered quite tedious, time-consuming and expensive in terms of time, money and effort.

The concept of return on investment is an important element in the field of human resource management. The investment done on the employees and the returns yield by them is always calculated on a front basis. Every organization gives their best to utilize the capacities of their employees in an organization.

2.4 CONCEPTUAL FRAMEWORK

With the help of the given picture, let's understand the conceptual framework of human resource costs and investment -

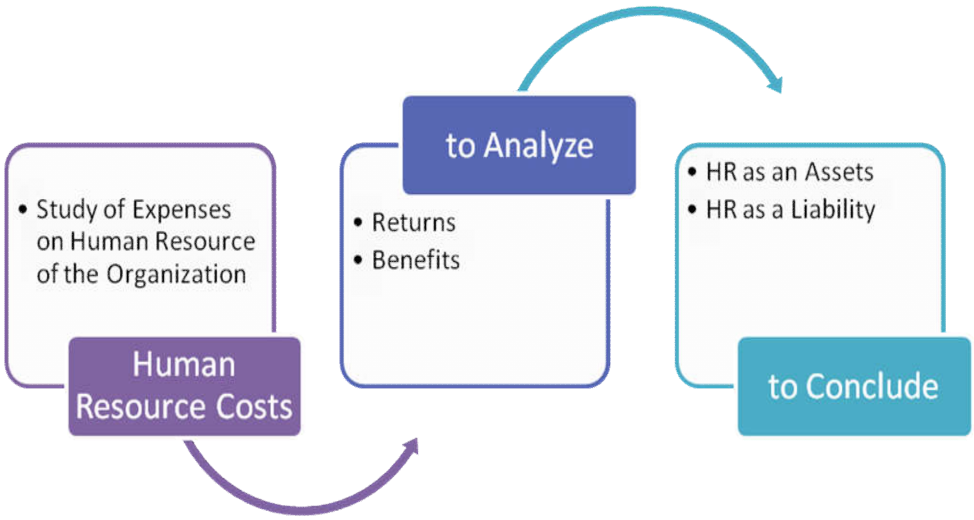

Fig. 2.9: Conceptual Framework of Human Resource Cost

From the above figure, it is visible that the human resource costs is a study of expenses done by the organization on the human resource. The purpose is to analyze the returns and benefits associated with the costs incurred by the organization. It helps organizations to come to a conclusion to consider human resources as an asset or a liability. Every organization must taken into consideration the cost and benefits relationship.

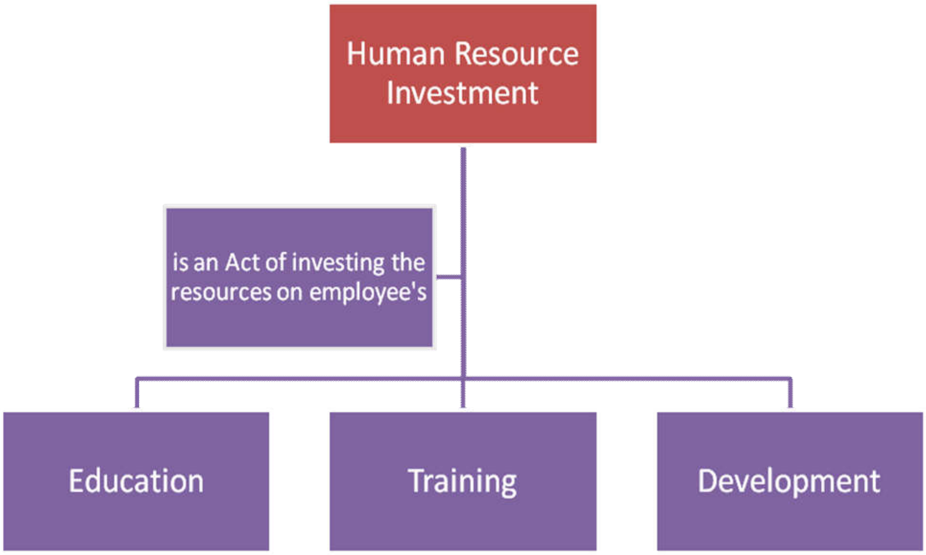

Fig. 2.10: Conceptual Framework of Human Resource Investment

From the above figure, it is understood that Human resource investment is an act of investing the resources on the education, training and development of the employees of an organization. The investment is in the form of -

1. Learning
2. Training
3. Development
4. Education
5. Imparting new knowledge
6. Skills enhancement through programs are some of the important investments an organization arranges for the employees. This helps them to survive in the competitive world.

2.5 APPROACHES

The approaches of human resource costs and investments are vibrant in nature. The approach relies on the mixed nature of calculations while ascertaining the cost of the human resource. The following are some important approaches of human resource costs/investment to ascertain the expenses and benefits -

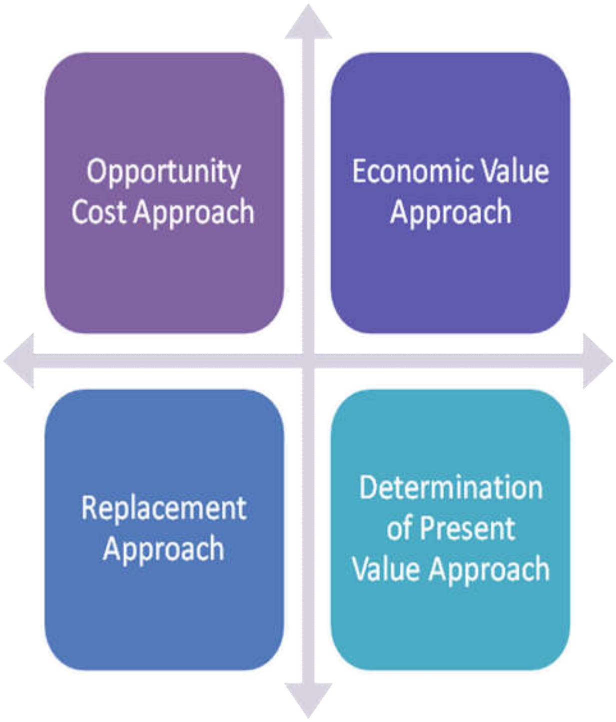

Fig. 2.11: Human Resource Cost/Investment Approaches

- **Opportunity Cost Approach**

Opportunity cost is an economic concept. In economics, opportunity cost is the cost associated with the use of best alternative uses. If we choose one alternative and lose others. The cost which was supposed to be incurred by us will be known as opportunity cost. The opportunity lost is opportunity cost.

The same model is used in calculating human resource costs. Under this method, the bidding method is used. First, the value of human value is determined. Then, the value of human resources in their alternative use is determined. The method also helps to evaluate the next best alternative use of human resources and cost associated with them.

- **Economic Value Approach**

This is an important approach of ascertaining the economic value of the human resource in an organization. Calculating the present economic value is an important factor to be considered in human resource accounting. Under this method, the payment which will be made to the human resources in the entire period of their career with the organization is calculated. The calculations are done on the basis of estimates. The discounted method is used to get the present economic value.

- **Determination of Present Value Approach**

This method of human resource accounting calculates the earnings of the organization after discounting the net contributions of the employees. The earnings are discounted to have the present value of human resources.

The gross and net contributions which are difficult to ascertain are calculated for the purpose of accounting.

- **Replacement Approach**

Replacement cost refers to the cost of filling the place of a person who left the organization. This cost includes the cost related to recruitment, selection, training and development. This cost is calculated with a view to avoid the labour absenteeism and turnover in an organization.

2.6 INVESTMENT IN EMPLOYEES

The concept of return on investment is a popular concept. When something is invested in employees, the return is always expected in a positive form. If the negative returns are coming in terms of employees productivity and performance, the employee will be treated as liability. The return is always assessed and evaluated.

The investment in employees can be done in the following forms -

- Employees Training
- Executive Development
- Education
- Learning
- Compensation Management
- New Courses

The benefits of investing in employees are numerous. People are believed to produce more. Preserving the mental and physical health of employees plays an important role. The decisions related to recruitment and selection can be improved with the help of human resource investment.

The base of any organization is their HR system. The more it is strong, the more convenient and easy it will be to handle the human resources of the organization. A strong HR system discloses the strength of the organization in the form of their human resources. Studying the role of the HR department in this area is important. The performance of employees helps to determine the benefits while the organization calculates cost from hiring to firing people. The ascertainment of results is an important process to identify the key employees and how an organization should take measures to retain them.

2.7 HUMAN RESOURCE DEVELOPMENT

2.7.1 CONCEPTUAL FRAMEWORK

Since the 1980s, the term ‘Human Resource Development’ has been in use although the concept is much longer old. The development of human resources is essential for any organization. The nature of human resource development is dynamic, future oriented and growth oriented. Unlike other resources, human resources are considered as the most valuable resource of an organization. They have rather unlimited potential capabilities and skills.

The concept of human resource development is different from the concept of human resource management. Human resource development helps organizations to develop their workforce. Development is the main focus area while human resource management deals with acquiring, training and managing people in an organization. The subject area of human resource management is mainly concerned with the managing part including their development. Human resource development is an important part of human resource management.

The human resources of the companies must be managed and developed in terms of the current strategic orientation of the company. The subject area of human resource development covers the development of skills, knowledge, abilities and capacities of the employees and managers. Through the framework of human resource development, employees can develop their skills, knowledge and abilities. It helps them to work more efficiently.

Within human resource management, human resource development can be a stand alone function. It is the training and development of a company’s workforce. The role of HRD managers is very important.

By creating a development culture and practices, the abilities and knowledge of the employees can be increased in this challenging and dynamic world. Human resource development aims at creating such a climate. Based on certain principles and interventions, the concept of human resource development is widening day by day.

Human resource development is a practice through which employees develop their personal and organizational skills, abilities and knowledge. Human resource development is developing the most superior workforce. In simple words, HRD is a process by which the employees of an organization are helped in a continuous and planned way. It helps employees to understand their own capabilities.

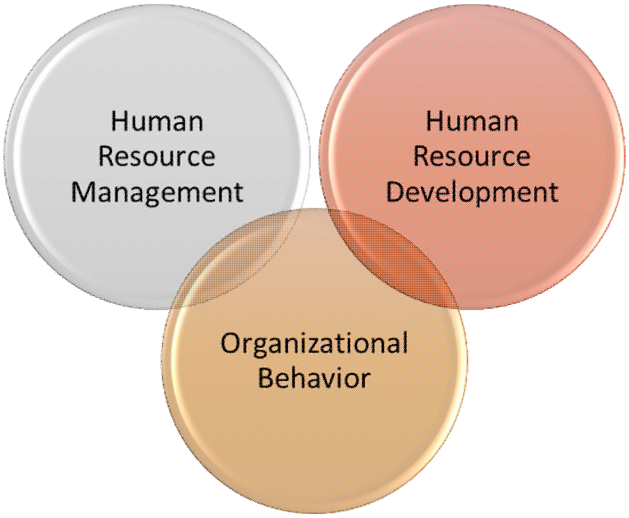

Fig. 2.12: HRM. HRD and OB

The concept of organizational behavior deals with human behavior at work. It is the study and application of knowledge about how people behave or act in an organization as far as their individual or group behavior is concerned. The subject area of OB is concerned with understanding, predicting and controlling human behavior in an organization.

Through human resource development, organizations fulfills the training and development needs of employees and managers respectively. It helps to provide new opportunities to the young talent to work better for the organization. The domain of human resource development is very vast and comprehensive. Human resource development can be in the form of a formal or informal way.

2.7.2 DEFINITION

According to ***M.M. Khan***, "Human resource development is the cross of increasing knowledge, capabilities and positive work attitudes of all people working at all levels in a business undertaking."

According to ***Leonard Nadler***, "Human resource development is a series of organized activities, conducted within a specialized time and designed to produce behavioral changes."

The programs and interventions used can be used to address a wide range of issues and problems in the organization. Human resource development is an important function within human resource management. There are many sub-systems of human resource development. Interventions help organizations to prioritize the needs of the organization.

2.8 SUMMARY

- The concept of considering human resources as a cost or investment is a matter of debate. In a business environment, humans are considered as the most important resource of the organization. Human capital refers to ascertaining the economic value of knowledge, skills and intelligence of employees. The companies invest more and more money to increase the productivity of the employees.

- The cost associated with recruiting, selecting, inducting, placing, training and retaining employees is human resource costs. It is important to balance these costs with the returns and benefits. The concept of human resource cost studies the behavior of costs. The HR criteria are taken into consideration. The cost related to manpower creates a challenge for every organization.

- Human resources are an intangible asset. Their emotions and feelings are intangible. Under the field of human resource management. Human beings are treated as assets. The information, skills, ideas and intuition are managed properly to extract the best from the employees. In few organizations, the employees proved themselves to be a cost or liability for an organization.

1. The approaches of human resource costs and investments are vibrant in nature. The approach relies on the mixed nature of calculations while ascertaining the cost of the human resource. The replacement cost approach, economic value approach etc. are some important approaches of human resource costs/investment to ascertain the expenses and benefits.

2. The concept of return on investment is a popular concept. When something is invested in employees, the return is always expected in a positive form. If the negative returns are coming in terms of employees productivity and performance, the employee will be treated as liability. The return is always assessed and evaluated.

3. The base of any organization is their HR system. The more it is strong, the more convenient and easy it will be convenient and easy to handle the human resources of the organization. A strong HR system discloses the strength of the organization in the form of their human resources. Studying the role of the HR department in this area is important.

4. Human resource development is a practice through which employees develop their personal and organizational skills, abilities and knowledge. Human resource development is developing the most superior workforce. In simple words, HRD is a process by which the employees of an organization are helped in a continuous and planned way. It helps employees to understand their own capabilities.

2.9 SELF ASSESSMENT TESTS

- Explain the concept of Human Resource Costs.
- Explain the concept of Human Resource Investments.
- State the important elements of human resource costs.

- Write down the importance of human resource investment in an organization
- "Why is investing in human resources important?" Support your answer with the help of a few examples.
- Highlight the various approaches to Human Resource Costs/Investments.
- What is human resource development? How it differs from human resource management.

❖❖❖❖

3

RETURN ON INVESTMENT

Unit Structure

3.1 OBJECTIVES

After studying this module, you should be able to :

01. Know about the concept of return on investment.

02. Know why is the development of HR important?

03. Understand the concept of ROI through High Performance Employees.

04. Measure the group value.

05. Understand the various models.

3.2 INTRODUCTION

The concept of return on investment is one of the important concepts to be studied in the field of financial management. The concept of human capital in the form of return on investment is gaining importance in the field of human resource management. The human resources are considered as the soft assets which helps organizations to utilize the hard assets efficiently. Investment in human resources in the form of human capital is gaining its vitality when it comes to the calculation part.

Considering human resources as an asset is not a new concept. The old philosophy of human resource management is totally different from the new philosophy. The old philosophy focused more on the management of employees while the new philosophy deals with the development of human resources rather than their management only. The concept of return of investment helps to ascertain the cost and the reward associated with it.

It is important to ascertain the economic value of the human resource for the organization. The employee's experience, skill and knowledge is used as a metric to ascertain the cost and the revenue. These parameters are used as a metric to ascertain the value and how the employees are able to contribute. A company invests their time, costs, energy and resources on various human resource related activities. The concept of return on investment helps organizations to assess the financial returns they are getting after doing an investment on employees.

Return on investment is a strategic decision and has long term effects on the growth and development of the organization. It is imperative to understand why calculation of return on investment is an important aspect for employers. Determining the worth and value of the employee is an important task and it can serve as a basis for the various personnel policies like promotion, demotion, transfer, training, development etc. The return on investment model is based on the various parameters.

Human capital refers to ascertaining the economic value of knowledge, skills and intelligence of employees. The companies invest more and more money to increase the productivity of the employees. It also includes the cost associated with

- Leaves
- Sickness
- Absenteeism and
- Turnover of the employees.

When the company spends money on the health, work, training and development of the employees, they expect something in return in terms of growth and development of the organization. It is known to the world that in the long run the organizations are not broken by the money, machines, material, products but by the people. It is important to ascertain the economic costs associated with the employees to calculate the return on investment.

A proper policy is required to ascertain the economic value of an employee. When the net benefits are subtracted from the cost incurred by the organizations, the true return comes into picture. Companies pay huge amounts to sustain and retain good people and this is possible because at the right time the company was able to know the real worth of the employee. The output generated by the employee and the input contributed by the firm are important metrics. The ratio between the cost and the benefit received is calculated to know the value of money spent on employees.

For example, Birla Infotech spends One Lakh rupees on the training of the employees. It is expected that the output generated by them should be more than the cost incurred by the company on the training program. After evaluation, the employees were able to generate the output which was more than Two lakh rupees in a considerable period of time. So, to conclude the concept it can be said that for every 1 Rupee spent by the company, the company is getting 2 Rupees in return by analyzing the cost and benefit associated with the training program. This is the basic example one can use to calculate the value of any financial activity in terms of expenses and returns. In reality, there are many metrics involved to calculate the return on investment on human capital.

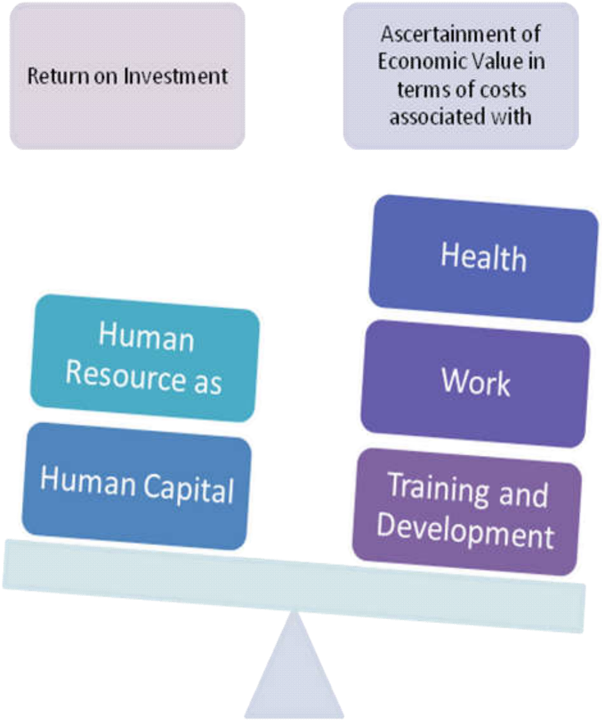

Fig. 3.1: Concept of Return on Investment

3.3 RETURN ON INVESTMENTS

In the field of Human Resource Management, human beings are considered as resources. They are treated as the Assets of the organization. If their capacities, strength, abilities are utilized properly, they can act as a contributor for the accomplishment of the organizational goals. Out of 5 Ms, man is the most important element because they play a crucial role in the management and administration process of the organization.

The hierarchy of the organization determines the role every individual will play in an organization. To simplify the work of the organization, the three levels of management significantly play their role in the working. The top level, middle level and the lower level of the organization works on the principles of the management. The work is distributed and the accountability is created. It is expected that the people in an organization will work as per the predetermined goals.

To take the expected work from the people, it is important to train them. When an employee joins an organization, they are raw and unaware about the policies and practices of the organization. It is the fundamental duty of a manager to make them aware and feel comfortable at the workplace. An employee after certain years of job always seeks for better working conditions, better pay and job security. For this, organizations have to contribute for the welfare and the safety of the employees at the workplace. Every activity of the organization involves the act of incurring some expenses.

When an organization incurs expenses on the employees in return it is expected that the employee will contribute more or the same for the development of the organization. The sustenance and the growth of any organization depends upon how strong their man power is? It is true that the 21st century will be driven by the people with knowledge and competency. If these kind of people are there in an organization, they should be maintained and kept as an asset for the overall development of the operations. People with knowledge can bring innovative ideas to revolutionize the production, trading, distribution and the marketing operations of the organization. The concept of return on investments on human resources helps to determine the economic value of the employees for an organization.

Return on investments is an important concept in the field of financial management. In a pure sense, it is a concept of finance. In the field of human resource management, it is gaining importance. Organizations spend money on their human resources. The purpose is to train, compensate and motivate them. In return, organizations expect the values to be created by the workforce towards the goals of the organization.

Every initiative taken by the human resource department needs some performance metrics for the purpose of evaluation. Every activity and initiative should be assessed and monitored by the Human Resource Department in terms of costs, efforts and time. If an initiative is not providing or yielding the expected result, the resources which were used earlier can be diverted into the fruitful activities related to human capital investment. The track of these resources are important to be considered to know its impact on the overall working and development of the organization.

It is important to have the HR data for the purpose of recording, analyzing and evaluating the performance of the employees. Tracking the retention ratio is also an important element of this concept. The new recruitment and selection process brings unnecessary expenses for an organization. Developing, maintaining and retaining the old employees if they are efficient is the best job an organization can do.

The human resource department can track the following metrics. On the basis of these metrics, they can track where their investment is going and whether it is generating fruitful results or not. Let's have a look at some of the metrics,

Performance of the Employee

- Quality of the work
- Understanding if the HR practices and policies are efficiently working
  1. Impact of executive development
  2. Pre and post impact of training and change in behavior
- Knowing if the strategies are working

3.3.1 CONCEPTUAL FRAMEWORK

The conceptual framework explains the meaning and nature of return on investments. The reasons like low engagement of employees, low productivity, employee hiring and firing costs are some of the reasons why calculations are required in terms of human resource investments. The following pictures depict the conceptual framework of returns on investment in the field of human resource management -

Fig. 3.2: Salient Features of Return on Human Resource Investments

From the above depicted figure, it is clear that the concept of returns on human resource investment has a significant impact on the long term working of the organization. The nature of returns on human resource investment is strategic. The decisions taken in this regard affects the growth and development of the organization. The investments are required for the purpose of sustainability.

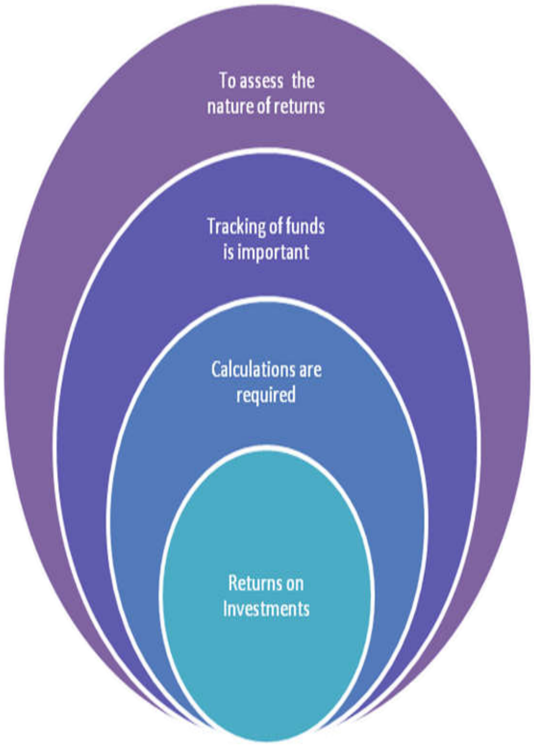

Fig. 3.3: Components of the Returns on Investments

From the above figure, it is clear that to constitute the returns on human resource investments it is important that the calculations should be done on a regular basis. Tracking of funds is important and assessing the nature of returns also plays a significant role. The returns generated by the employees are positive or negative is important to track. As mentioned earlier, every activity and initiative should be assessed and monitored by the Human Resource Department in terms of costs, efforts and time. If an initiative is not providing or yielding the expected result, the resources which were used earlier can be diverted into the fruitful activities related to human capital investment.

3.4 DEVELOPMENT OF HR

Development of human resources is a practice through which employees develop their personal and organizational skills, abilities and knowledge. Human resource development is developing the most superior workforce. In simple words, HRD is a process by which the employees of an organization are helped in a continuous and planned way. It helps employees to understand their own capabilities.

The development of human resources is essential for any organization. The nature of human resource development is dynamic, future oriented and growth oriented. Through the framework of human resource development, employees can develop their skills, knowledge and abilities. It helps them to work more efficiently.

Human resource development deals with the training and development of employees and staff. Their development leads to community development.

With the help of the diagram given below, we can understand the framework of human resource development -

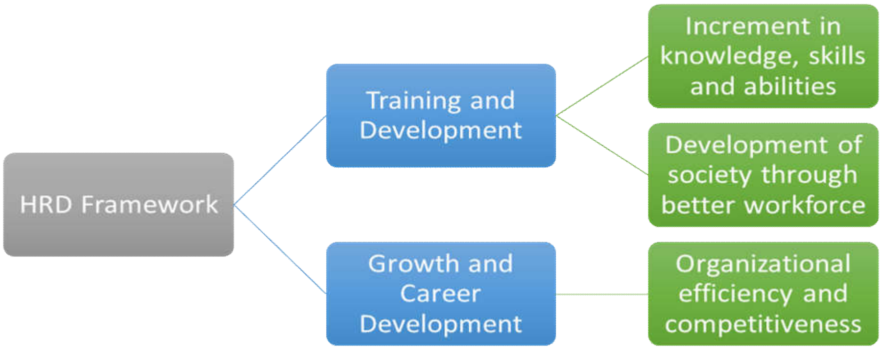

Fig. 3.4: HRD Framework

The framework of HRD is designed to serve the employees. Human resource development is one of the forms of systems which helps organizations to sustain and retain employees. Motivation plays an important role in the whole process. Human resource development itself is a framework designed to train, develop and motivate employees through training and development by increasing their knowledge, skills and abilities.

Human resource development framework is important because it provides necessary training and support to the employees of the company. The most efficient workforce is targeted first to accomplish the targeted goals while serving the customers and society. The objective of the HRD framework is to to develop and maintain the skills and competencies of the employee.

When the knowledge, skills and abilities of an employee increases, it leads to a better, trained and skilled workforce. The assessment, design, implementation and evaluation of the whole framework is important. Assessment and prioritization of needs is another important part of the whole process. Every framework deals with the following stages as far as human resource development is concerned.

A human resource development strategy deals with managing and developing its human resource to align with its business activities and competitive world. The human resource development strategy is an enterprise's overall plan for managing its human capital to align with its commercial and business activities. The direction is set for all the main areas of human resource. The key areas of human resource include human resource planning, recruitment, selection, training and development, performance appraisal and compensation.

The HRD strategies for long-term planning and growth dictates HR practices throughout the organization. The terms ‘planning and growth’ denote the direction of every direction. The analysis of the organization and external environment is required to prepare the strategies for HRD. It takes longer than one year to implement HRD strategies for long-term planning and growth.

The activities of human resource management are shaped for the long term to achieve the objectives and goals. It helps in the deployment and allocation of money, time, personnel and organizational resources.

The proactive approach is required in today's fast changing, challenging and competitive environment. With the help of these strategies, the efficiency, performance and productivity can be achieved through growth and development of human resources in an organization . The utilization and maximization of creative opportunities and available environment through acquisition of knowledge is important in this field. Along with knowledge, skills and abilities are also necessary to be updated for productive efforts.

3.5 ROI THROUGH HIGH PERFORMANCE EMPLOYEES

Achieving returns on investment through high performance of employees is not an easy task. Organizations are required to focus on the various aspects like there should be a facility of continuous training and development programs for the employees to have a good learning system. A supportive and cohesive work environment also plays an important role in achieving good returns on investment through high performance of employees.

When a person joins an organization with a set of his individual goals, it is important to understand his attitude towards work. After sometime, it is expected from a manager to align his individual goal with the group goals and organizational goals.

The concept of human resource development advocates this concept. Rather than managing people, the more vital parameter is to develop the people. Communication is a key element. Without communication, no organization can achieve this objective. The HRD strategies for long-term planning and growth also advocates the clear communication between the various departments and levels. The HR policies should be made in accordance with the vision, missions and objectives of the organization. It should be conveyed and communicated properly to the employees of the organization.

Maintaining quality in every aspect of the organization is a need of today. A quality strategy will ensure this element. Managing change is another important challenge and properly taken care of. Feedback mechanism is required to see whether the organization is able to cope with the change or not. Feedback mechanism also ensures that the HR policies are well communicated, quality strategies are well planned and implemented. Employees are involved completely in the whole communication process.

A good feedback mechanism ensures the greater participation of employees in an organization. Doing expenditure on employees is not just a cost but also an investment. When an organization invests in employee's growth, training and development, good returns can be expected.

The following number of benefits are analyzed when an organization invests in employee's growth -

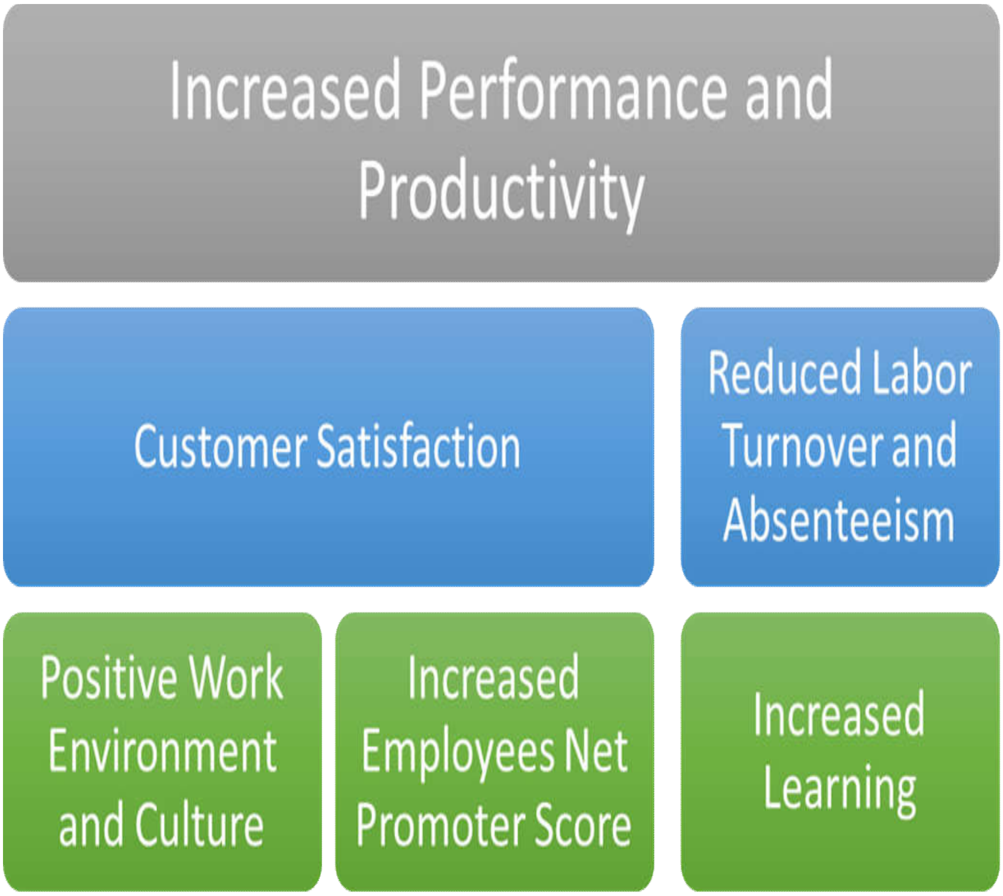

Fig. 3.5 Benefits of Increasing Productivity through ROI

It is a systematic, integrated and planned approach to improve the effectiveness of the organization.

- **Increased Performance and Productivity**

It is observed that the concept of return on investment has significantly contributed in increasing the performance and productivity of the employees. The subject matter of Human Resource Management is to develop and maintain the HR of the organization. When the money is invested in the growth and development of the employees, it increases their morale and productivity.

- **Customer Satisfaction**

It is a popular statement about the employees and their performance. When the needs of employees are taken care of, they automatically take care of customers. There is a concept of mouth publicity in the field of marketing. Mouth publicity refers to an act where the customers talk about the negative and positive aspects of the product. Satisfied customers are more likely to use the mouth publicity in a positive way because they recommend the products to the others free of cost. If the customers are treated well by the high performing employees, it increases their satisfaction level and loyalty towards the company.

- **Reduced Employee Turnover and Absenteeism**

One of the benefits that accompany draw when they have growth options for their employees is encountering the reduced number of labor turnover and absence at work. Employee turnover is a rate at which an employee leaves the organization while labor absenteeism is an act of an employee remaining absent in a particular period. Both concepts deal with the recurrence nature and frequency level. If employee turnover and absenteeism is high, it will lead to disrupt work and productivity. Organizations put lots of effort into reducing turnover and absenteeism. Return on investment is one of the options through which this problem can be sorted out.

- **Positive Work Environment and Culture**

A positive work environment and culture can be encouraged with the help of this concept. Employees who feel supported expect it to contribute more in developing the positive culture of the organization. Studies have shown that a good work environment and culture always promotes the best productivity among employees. Top talent can be attracted when it comes to recruitment and selection process.

- **Increased Employee Net Promoter Score**

Recruitment refers to an act through which the prospective and the suitable candidate are encouraged to apply for the job in an organization. The present employees are considered as one of the potential sources of recruitment. If the company is doing proper investment on the growth and development of employees, they definitely recommend others to join their organization.

Employee Net Promoter Score is a metric which measures the employee's will to recommend their organization to others as a place to work. If this is high, it means the cost incurred on employees is generating returns.

- **Increased Learning**

It is felt that the learning aspect among employees increases due to this reason. Achieving returns on investment through high performance of employees is not an easy task. Organizations are required to focus on the various aspects like there should be a facility of continuous training and development programs for the employees to have a good learning system. A supportive and cohesive work environment also plays an important role in achieving good returns on investment through high performance of employees.

3.6 MEASUREMENT OF GROUP VALUE

In the field of human resource management, the concept of human resource accounting does the same. The decisions related to the personnel policies are taken on the basis of human resource accounting. The subject matter of human resource accounting deals with the human resources and their economic value in an organization. Human resource accounting is measuring the financial cost incurred on an employee and also evaluating the value generated by the employee in the profitability of the business. It is the process of identifying the budget associated with the employees when it comes to recruitment, training, development and compensation.

Assigning the monetary value on human resources is a difficult task. Assessing the contribution of human capital is an important aspect while measuring the group values. These values play a significant role in developing an organizational culture. To measure the group value in human resource accounting, the following models will be studied -

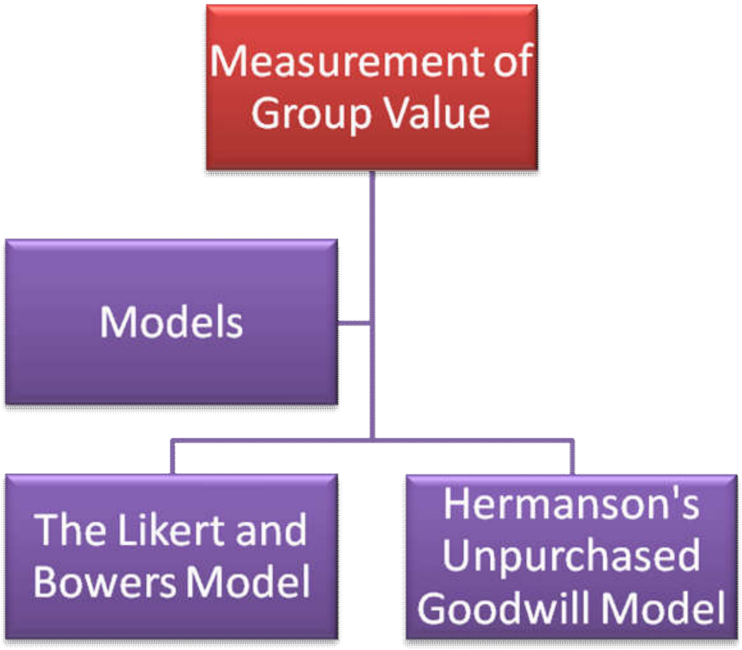

Fig. 3.6: Measurement of Group Value Models

01. The Likert and Bowers Model

To determine the group's value to an organization, the study of this model is divided into three parts -

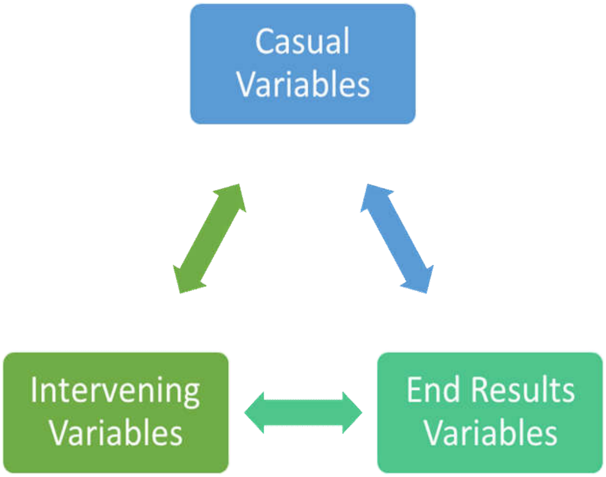

Fig. 3.7: The Likert and Bowers Model

01. Casual Variables

Casual variables are internal to an organization and are controllable in nature. These variables are in the hands of the top level management of the organization.

With the help of middle and lower level employees, the top level can determine the impact of these variables.

These variables include managerial behavior and organizational structure.

Managerial behavior is a consolidated term and includes many factors. It not only affects the productivity of the employees but also the effectiveness of the organization. The managerial behavior determines the effectiveness of the group. The following factors are need to be considered while studying this concept -

Fig. 3.8: Aspects of Managerial Behavior

Organization structure refers to the hierarchical structure of an organization. The organization works towards the goals which are predetermined in nature. It is expected that the structure should be simple and flexible. The managerial behavior and organization structure are internal factors and can be controlled accordingly. If management wants to introduce any changes, they may incorporate the same in the working and the style of the organization.

02. Intervening Variables

Intervening variables refers to the factors which reflect organizational capabilities and effectiveness. The factors which include their impact on organizational capabilities are flow of communication, employee satisfaction and level of morale, the culture and code of conduct of the organization, leadership style, peer pressure and performance.

03. End Results Variables

The end result variables as the name suggests are those variables which reflect the progress, result and achievement of the organization. The end results variables are dependent on casual and intervening variables. The efficiency of an organization can be measured in terms of -

- Sales turnover
- Revenue generation
- Fulfillment of social responsibilities
- Market share
- Goodwill
- Client retention ratio

The Likert and Bowers model is not a very popular model but it reflects the relationship between the dependent and independent variables. The nature of control in these factors can also be studied. In group measurement theory, the contribution of this model is not much recognized.

02. Hermanson's Unpurchased Goodwill Model

Hermanson's Unpurchased Goodwill model is also used to measure the group values in the human resource accounting field. According to this model, there are some intangible assets of the organizations which are not shown or recognized in the balance sheet of the company. The name of the model is including Unpurchased Goodwill Model which means there are some assets which are not purchased by the organization but certain factors have contributed in creating those intangible assets. The company's image, reputation, and employee retention are some of the important factors which come under the intangible assets under this model.

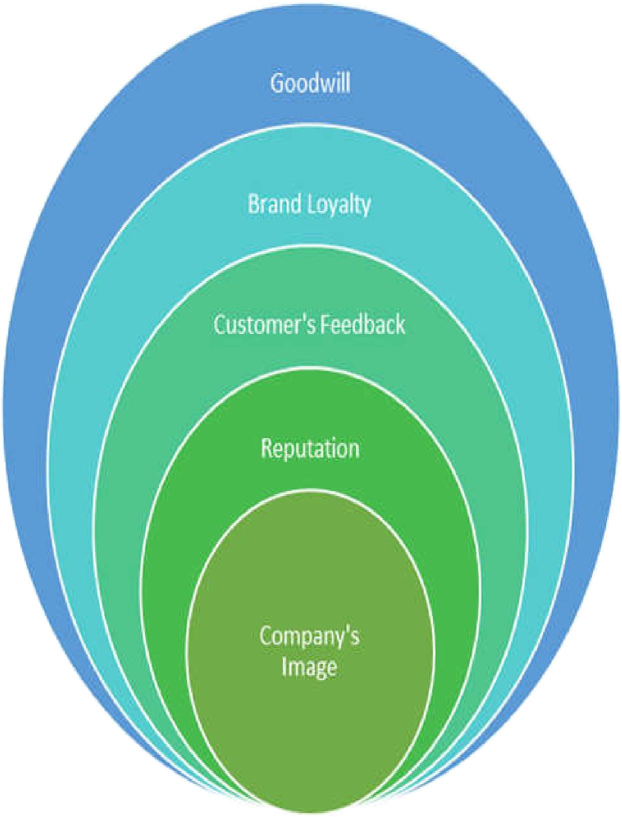

Fig.3.9: Unpurchased Goodwill

The following are the salient features of this model -

01. There are some intangible assets of the organizations which are not shown or recognized in the balance sheet of the company

02. These intangible assets are created by the people of the organizations.

03. The intangible factors which are always not recognized on the Balance Sheet of the company are -

- Company's image
- Goodwill
- Brand loyalty
- Customer's feedback
- Reputation
- Employees skills etc.

04. The impact and valuation of this unpurchased goodwill needs to be assessed and evaluated by the organization.

05. The name of the model is including Unpurchased Goodwill Model which means there are some assets which are not purchased by the

organization but certain factors have contributed in creating those intangible assets.

06. The unpurchased Goodwill should be evaluated and measured to avoid the chances of underestimation.

Hermanson's Unpurchased Goodwill Model focuses on the importance of intangible assets of the organizations. These assets have a major contribution in the success of the organization. Though the valuation and contribution of these assets is not shown in the balance sheet of the company. The assets are not purchased but created by the organization. These assets represent the true value of the organization.

3.7 SUMMARY

- Considering human resources as an asset is not a new concept. The old philosophy of human resource management is totally different from the new philosophy. The old philosophy focused more on the management of employees while the new philosophy deals with the development of human resources rather than their management only. The concept of return of investment helps to ascertain the cost and the reward associated with it.

- Return on investments is an important concept in the field of financial management. In a pure sense, it is a concept of finance. In the field of human resource management, it is gaining importance. Organizations spend money on their human resources. The purpose is to train, compensate and motivate them. In return, organizations expect the values to be created by the workforce towards the goals of the organization.

- The concept of returns on human resource investment has a significant impact on the long term working of the organization. The nature of returns on human resource investment is strategic. The decisions taken in this regard affects the growth and development of the organization. The investments are required for the purpose of sustainability.

- The development of human resources is essential for any organization. The nature of human resource development is dynamic, future oriented and growth oriented. Through the framework of human resource development, employees can develop their skills, knowledge and abilities. It helps them to work more efficiently. A human resource development strategy deals with managing and developing its human resource to align with its business activities and competitive world. The human resource development strategy is an enterprise's overall plan for managing its human capital to align with its commercial and business activities..

- Achieving returns on investment through high performance of employees is not an easy task. Organizations are required to focus on the various aspects like there should be a facility of continuous training and development programs for the employees to have a good learning system.

A supportive and cohesive work environment also plays an important role in achieving good returns on investment through high performance of employees.

- The Likert and Bowers Model is divided into three parts for the purpose of study. The important aspects are Casual, intervening and end results variables. Hermanson's Unpurchased Goodwill Model focuses on the importance of intangible assets of the organizations. These assets have a major contribution in the success of the organization. Though the valuation and contribution of these assets is not shown in the balance sheet of the company.

3.9 SELF ASSESSMENT TESTS

- Explain the concept of return on investment in the field of financial management and human resource management.
- How the concept of return on investment advocates the importance of human resources in organizations.
- What is human resource development? Explain the significance of developing HR.
- How can the return on investment be generated? What is the role of high performance employees?
- Assess the role of high performance employees in generating high Returns on Investments.
- Write a note on The Likert and Bowers Model.
- Discuss Hermanson's unpurchased Goodwill Model in detail.

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4

HUMAN RESOURCE ACCOUNTING SYSTEM

Unit Structure

4.1 OBJECTIVES

After studying this module, you should be able to :

- Know about the concept of human resource accounting system.
- Know why the development of the human resource accounting system is necessary.
- Understand the process of the implementation of the human resource accounting system.
- Know about the integration with other accounting systems.

4.2 INTRODUCTION

It is important to build a system to develop and maintain human resources in an organization. Some calculations are considered to develop a human resource system. The main consideration should be human and the expenses incurred by the company for their development and maintenance in an organization. In the right direction, the energy of human resources should be utilized.

Human resource accounting, Human resource audit, Human resource research and Human resource information system are some of the important topics which come under the subject matter of human resource management. Human resource development is now viewed as the fundamental aspect not only for organization but also for the governments of the various nations across the world.

People are an important element in any country. Their development should be considered as the prime duty. In our country, there is a separate Ministry for developing human resources known as the Ministry of Education. Earlier, it was known as the Ministry of Human Resource Development. The Ministry is responsible for planned development in the field of education and research. The domain of the work is very vast and comprehensive.

Accounting in general sense deals with the process of keeping the financial accounts. The data is organized and summarized in a systematic way for business. The financial decisions are taken on the basis of activity of receipts and payments. In the field of human resource management, the concept of human resource accounting does the same. The decisions related to the personnel policies are taken on the basis of human resource accounting. The human resource accounting system is a planned effort to record and analyze the performance of employees.

The conceptual framework of the Human Resource Accounting System deals with the ideology of incorporating human expenses into a system. It is important to ascertain the contribution of the organization in the development of the employees. The costing helps to ascertain the contribution of the employees.

Human resource accounting system helps to manage the cost and value of the human resources of the organization. Managing people is an art. It is a popular belief that whatever a manager does, he or she does through decision making. It is the art of a manager how responsibly and effectively, he or she is able to take the work from the people. People perform best when they are understood, heard and appreciated by the managers.

The philosophy of human resource management lies in procuring, managing and controlling human resources in an organization. It is true if the people are not understood by the manager, they will leave or perform poorly. Ultimately, it hampers the growth and development of organizational goals. The concept of organizational behavior needs to be understood by the manager. The concept explains the study of human behavior at the workplace.

Human behavior is caused and sometimes unpredictable. When the investment is done on the wrong people, it can lay the negative returns on the positive people. As, both are coined and treated the same way. A human resource accounting system helps the organization to understand the cost incurred on the employee and the returns generated by him or her for the organization. It also helps to assess the performance of the employees.

In the next section, we will see the more concepts of the human resource accounting system with the experts definitions.

4.3 HUMAN RESOURCE ACCOUNTING SYSTEM

4.3.1 MEANING

Human resource accounting system is an important concept in the field of human resource management. Accounting in general sense deals with the process of keeping the financial accounts. The data is organized and summarized in a systematic way for business. The financial decisions are taken on the basis of activity of receipts and payments. In the field of human resource management, the concept of human resource accounting does the same. The decisions related to the personnel policies are taken on the basis of human resource accounting.

The subject matter of the human resource accounting system deals with the human resources and their economic value in an organization. The concept of human resource accounting can be categorized into two parts - the narrow concept and the broad concept. The narrow concept deals with the budget thing while the broad concept deals with more activities. The narrow concept of the human resource accounting system deals with identifying and allocating a budget on human resources. This concept also helps to evaluate the basic cost associated with the employees and the value contributed by them for organization. The broader concept of the human resource accounting system deals with something more comprehensive. Human resource accounting refers to the process of accumulating, evaluating and reporting data about the cost incurred on employees and the value generated by them in the company's profitability. The broad term also includes the expenses incurred on recruitment, selection, employees training and management development, compensation and benefits etc.

In simple words, the human resource accounting system is an ideology where the people are taken as inputs. With the help of subsystems, the output is measured. If the expenses on the people are more and output is less, the situation is said to be generating negative or no returns. If the expenses on the inputs is less and the output contributed by the people is more, the situation is said to be generating returns on investment. The concept of return on investment, we have seen in the previous chapter of this elective. Return on investment is a strategic decision and has long term effects on the growth and development of the organization. It is imperative to understand why calculation of return on investment is an important aspect for employers. Determining the worth and value of the employee is an important task and it can serve as a basis for the various personnel policies like promotion, demotion, transfer, training, development etc. The return on investment model is based on the various parameters.

4.3.2 IMPORTANT CONCEPTS

Before moving towards the next part, it is important to understand the important concepts of human resource accounting and human resource accounting systems. The important concepts are -

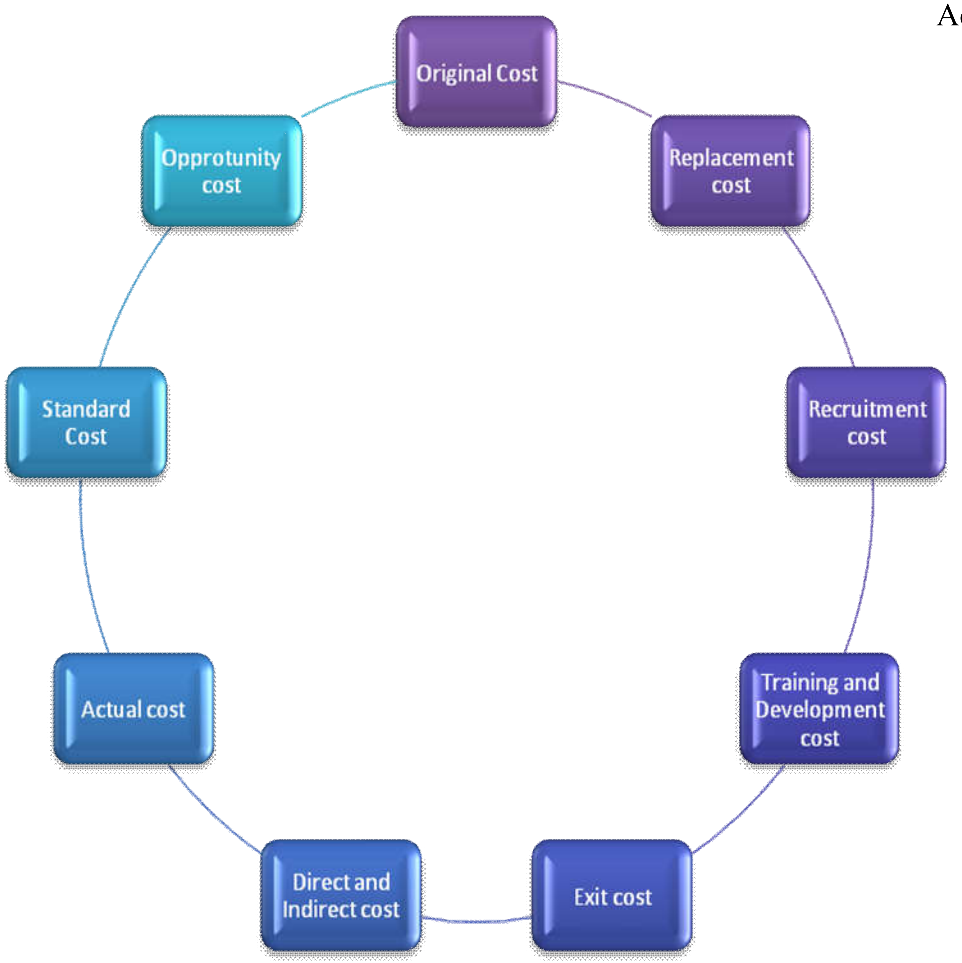

Fig. 4.1: Important Concepts of Cost

1. **Original Cost -** Original cost is also known as historical cost. It is an actual cost which was sacrificed to obtain a resource.

2. **Replacement Cost** - Replacement Cost refers to the cost of replacing the existing resource with the new one.

3. **Recruitment Cost** - The cost incurred on informing, motivating and encouraging the candidates to apply for the job in an organization is a recruitment cost.

4. **Training and Development Cost** - The training and development cost refers to the cost incurred on the evaluation, assessment and improving performance of the employees in an organization.

5. **Exit Cost** - Exit cost refers to the cost associated with the employee when he or she leaves the organization.

6. **Direct Cost and Indirect Cost** - Direct cost refers to the cost associated with the activity of tracing directly related to any activity.

Indirect cost refers to the cost associated with the activity of tracing indirectly related to any activity or operation.

1. **Actual Cost** - Actual cost is a cost incurred on a specific activity or operation and the calculations are clear.
2. **Standard Cost** - When the cost is ascertained before the actual cost, that cost is known as standard cost. It is pre-determined in advance.
3. **Opportunity Cost** - The cost associated with opportunity lost is opportunity cost.

4.3.3 CONCEPTUAL FRAMEWORK

The concept of the human resource accounting system can be understood with the help of some figures -

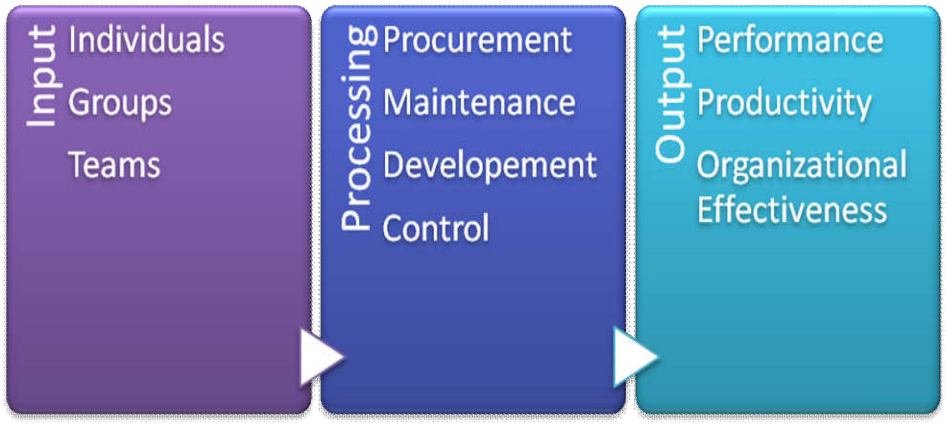

Fig. 4.2: Human Resource Accounting System

The above figure depicts the working of human resource accounting as a system.

Input : Individuals, Groups and Teams

Processing: Procurement, Maintenance, Development and Control

Output: Performance, Productivity and Organizational Effectiveness

4.3.4 DEVELOPING HUMAN RESOURCE ACCOUNTING SYSTEM

The development of the human resource accounting system can be better understood. In the accounting and human resource field, some important definitions need to be understood to have a better understanding about the human resource accounting system and the development process.

In the words of M.N. Baker, "Human resource accounting is the term applied by the accountancy profession to quantify the cost and value of employees to their employing organization"

The above definition depicts the simple meaning of human resource accounting. Mr. Baker advocated that the concept of human resource accounting quantifies the cost and value of an employee. In an organization, it is important to know the worth of an employee in terms of the expenses incurred on him or her and the returns generated.

The American Accounting Society Committee defines, "Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties." In simple terms, it is an extension of the accounting principles of matching costs and revenues and of organizing data to communicate relevant information in financial terms."

Developing a human resource accounting system involves a strategic approach. The approach needs to be aligned and integrated with the human capital and finance department. To develop an effective system, it is important for an organization to work diligently. The process of developing a human resource accounting system is systematic in nature.

Developing a system involves a collaboration between -

- HR Department
- Finance Department
- Information Technology Department

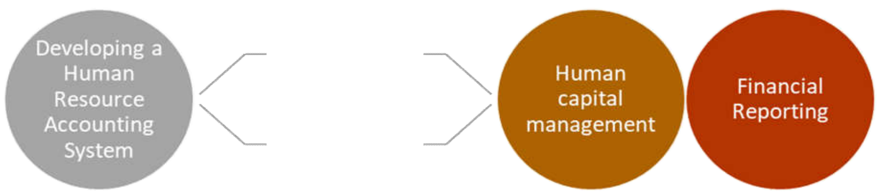

Fig. 4.3: Developing a Human Resource Accounting System

Developing a human resource accounting system involves a systematic process of integrating the human capital management and financial reporting system of the organization.

Human Capital Management - Human capital management is a systematic process of hiring the right people at the right job in the right place, managing the human resources efficiently and taking the best from them. The purpose of human capital management is to optimize the productivity of the organization.

Financial Reporting System - The financial reporting system of an organization refers to the process of measuring the expenses and the revenue of the company. The system covers the details of incurring cost on human resources with reference to the human resource department, expenses incurred on their recruitment, selection, training and development, revenue generated by the workforce and the flow of cash. The term 'Financial reporting system' is a comprehensive term and covers the working of the whole organization.

Fig:4.4: Aspects of Human Capital Management

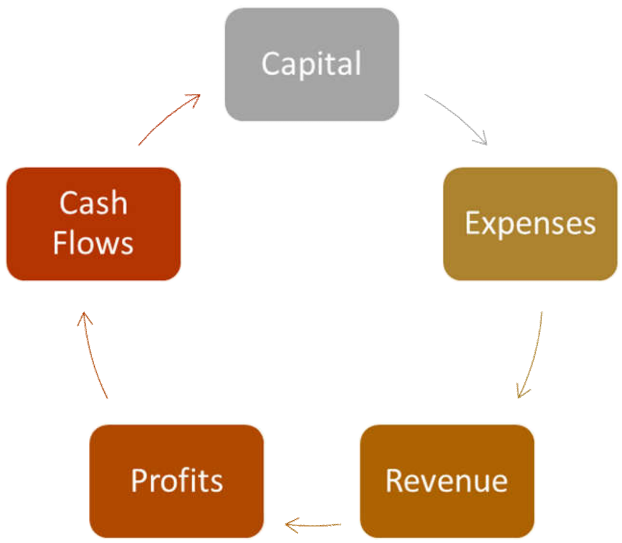

Fig. 4.5: Financial Reporting System

After understanding the concept of how to develop an effective human resource information system, we can now look into the systematic process of developing this system step by step -

Step I - Determining human capital aspects

Step II - Choosing method of valuation

Step III - Collection of data

Step IV - Analyzing the data

Step V - Developing the accounting policies and procedures

Step VI - Developing a system to integrate human capital management and financial reporting system

Step VII - Follow up and monitoring

The above steps vary from organization to organizations, place to place. Organizations with the help of the Balance Sheet, Income Statement, Cash Flow and Fund Flow Statement and through the statement of retained earnings maintain the financial reporting. In the next paragraph, we will see how effectively the human resource information system can be developed by explaining the above mentioned steps -

01. Determining Human Capital Aspects

Human capital refers to ascertaining the economic value of knowledge, skills and intelligence of employees. The companies invest more and more money to increase the productivity of the employees. It also includes the cost associated with leaves, sickness, absenteeism and turnover of the employees. In this step, identifying the key human indicators is important. The factors like -

01. Employee performance

02. Working hours

03. Output

04. Leave record

05. Training hours

06. Turnover rate etc.

02. Choosing Method of Valuation

The second step involves choosing the best method for the valuation of human resources. The cost of hiring and firing employees. The benefits associated with the calculation of these costs is an important aspect of human resource accounting. Along with the cost, the value generated by the employees in the profitability of the business is also taken into consideration.

The methods like -

01. Market based method

02. Income based method

03. Cost based method

04. Hybrid method

03. Collection of data

The third step in developing a human resource information system is collecting the relevant data on human resources. The cost associated with recruiting, selecting, inducting, placing, training and retaining employees is human resource costs. It is important to balance these costs with the returns and benefits. The concept of human resource cost studies the behavior of costs. The HR criteria are taken into consideration. The cost related to manpower creates a challenge for every organization.

04. Analyzing the data

In this step, the data is analyzed with the purpose to consider the various aspects of human resource costs and investments. It has become difficult to manage the costs related to certain parameters. In relation to one or more parameters, the cost is analyzed to study the behavior of expenses and the income generated by the employees. From and within the organization, the human resource cost is incurred to procure, train, maintain and manage the human resources of the organization. The human resource cost includes all types of costs.

05. Developing the accounting policies and procedures

In this step, the development of accounting policies and procedures takes place. The accounting policies and procedures are developed related to human resource valuation and reporting systems. This step involves the development of a system to monitor how human capital of the organization will be -

- Measured
- Recorded
- Monitored
- Reported
- Controlled

06. Developing a system to integrate human capital management and financial reporting system

The sixth step involves the process of developing a system to integrate human capital management and financial reporting systems. Human capital management is a systematic process of hiring the right people at the right job in the right place, managing the human resources efficiently and taking the best from them. While, the financial reporting system of an organization refers to the process of measuring the expenses and the revenue of the company.

07. Follow up and Monitoring

The most important step after developing a human resource information system is to ensure that the system is working in accordance with the purpose or not. The concept of return on investment is an important element in the field of human resource management. The investment done on the employees and the returns yield by them is always calculated on a front basis. Every organization gives their best to utilize the capacities of their employees in an organization.

The last step involves measuring, following up and monitoring the human resource information system. This system helps organizations to have the correct database. It also helps organizations to measure the true value of their employees.

4.5 IMPLEMENTATION OF HUMAN RESOURCE ACCOUNTING SYSTEM

The human resource accounting system is an ideology where the people are taken as inputs. With the help of subsystems, the output is measured. If the expenses on the people are more and output is less, the situation is said to be generating negative or no returns. If the expenses on the inputs is less and the output contributed by the people is more, the situation is said to be generating returns on investment.

Though the detailed process of developing a human resource information system is already discussed in the previous topic. The implementation part needs to be assessed in more detail. The following measures can be taken to implement the human resource accounting system -

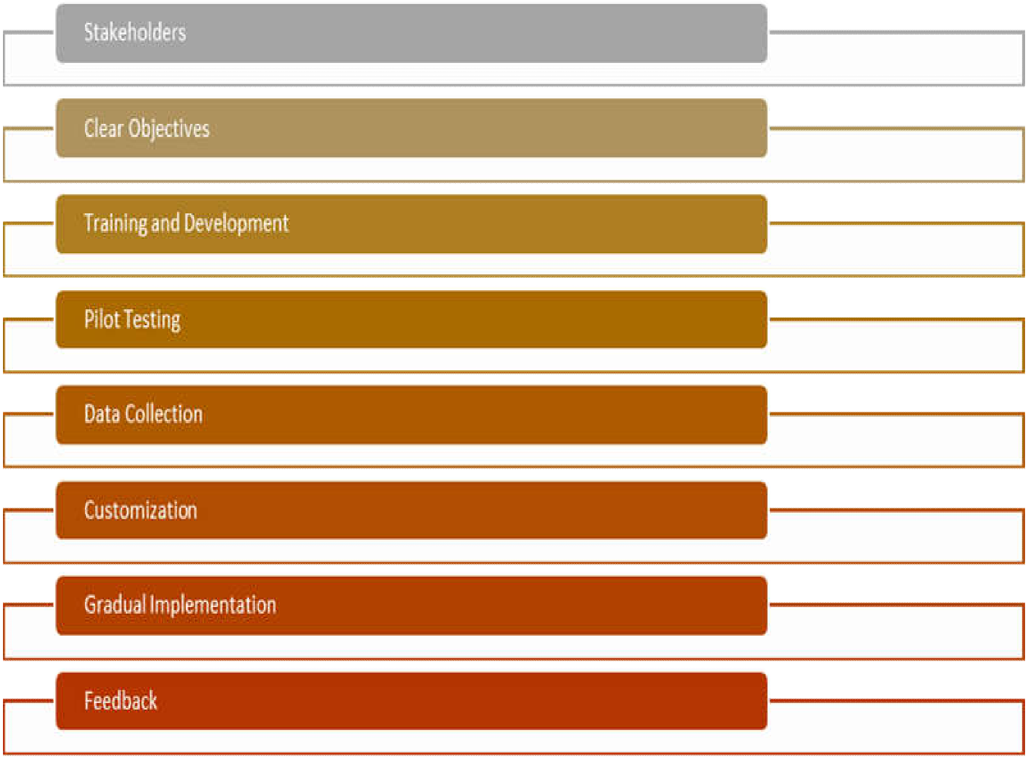

Fig. 4.6 Implementation of Human Resource Accounting System

Before implementation, it is important to communicate the benefits of the human resource accounting system to the key stakeholders of the organization.

Fig.4.7: Key Stakeholders

The whole system to be implemented requires a strategic approach to ensure a smooth change in an organization.

Workshops, training and development programs can be organized for the employees to make them aware about the purpose of the whole system and how the system will align with the organizational goals.

Fig.4.8: Pre Implementation Measure

A pilot testing with the small department can also be initiated to assess and evaluate the impact of developing a human resource accounting system. Taking feedback is important in this step.

The data should be prepared before the set up. The data should be compiled and collected. Quality checks should be rounded off.

The human resource accounting system can be customized and configured as per the needs and goals of the organization.

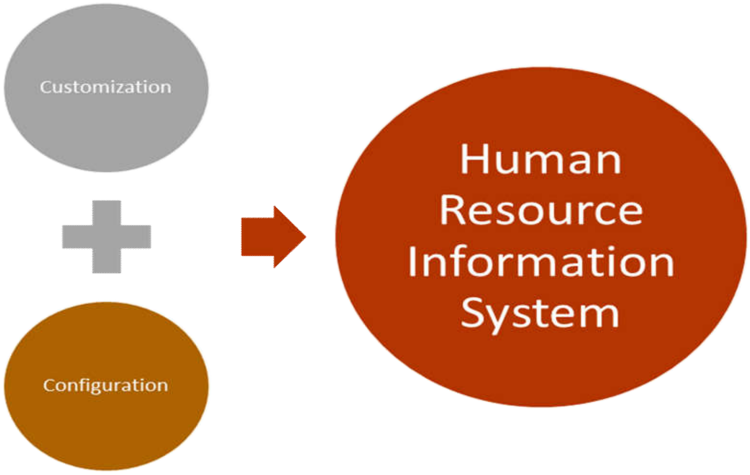

Fig. 4.9: Key Aspect of Implementation Phase

The implementation should be initiated gradually. With each phase, the people and resources should be accommodated.

The training and support should go hand in hand in the initial phases of even in small implementation processes.

Once the human resource accounting system is implemented, the pre and post implementation work should be assessed. Again, the feedback is an important element in this stage.

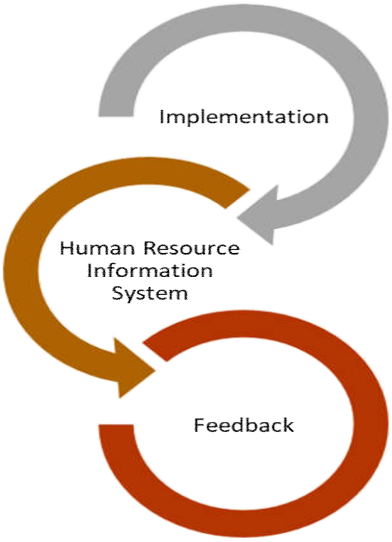

Fig. 4.10: HRIS and Feedback

The feedback collected should be utilized to ensure the proper arrangements for the optimization of the whole process.

4.6 INTEGRATION WITH OTHER ACCOUNTING SYSTEM

Accounting in general sense deals with the process of keeping the financial accounts. The data is organized and summarized in a systematic way for business. The financial decisions are taken on the basis of activity of receipts and payments. In the field of human resource management, the concept of human resource accounting does the same. The decisions related to the personnel policies are taken on the basis of human resource accounting. The subject matter of human resource accounting deals with the human resources and their economic value in an organization.

The integration of the human resource accounting system with other accounting systems is an important activity. The human resource department cannot work in isolation. The four core departments of organizations are dependent on each other. The four core department of any organization are -

- Human Resource Department
- Production Department
- Marketing Department
- Finance Department

Likewise, the human resource information system of the organization needs to be integrated with the other accounting system. It will modernize the data flow and ensure organizational effectiveness. The employee record, data, payroll record, costs and expenses are some common integration points.

The expenses incurred on recruitment, selection, employees training and management development, compensation and benefits etc. are also recorded and assessed in the human resource accounting system. The base of any organization is their HR system. The more it is strong, the more convenient and easy it will be to handle the human resources of the organization. A strong HR system discloses the strength of the organization in the form of their human resources.

While, the other accounting deals not only with the human resource department but also it covers the receipts and payments related to the other department as well. The other accountancy are part of conventional accounting practices based on conventions and principles. The other accounting covers -

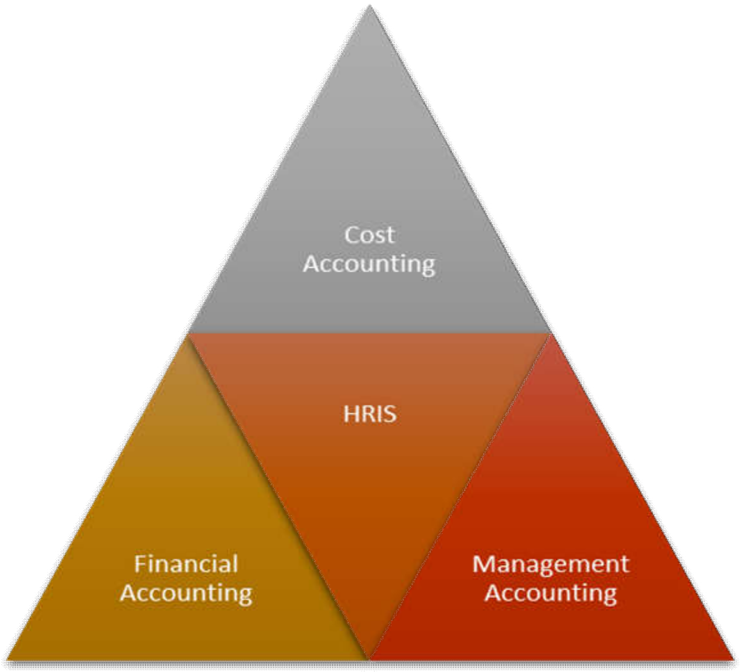

Fig. 4.11: Integration of HRIS with Other Accounting System

- Financial Accounting - Financial accounting deals with the determination of record transactions and calculation of profit and losses in any financial year.

- Cost Accounting - Cost accounting deals with the ascertainment of cost allocation, accumulation and transaction.

- Management Accounting - Management accounting helps the management in taking the beneficial decisions for the organization.

Another reason to integrate the human resource information system with other accounting systems is to ensure accurate financial matters reporting. If the system is integrated, the payroll information will be processed more easily as everything is on system. The benefits, costs and expenses can be checked and evaluated anytime if the system is integrated with other accounting systems.

Integration helps organizations in deciding the policies related to compensation management. It provides the information with regard to the cost associated with the employee and the reward and returns given by him/her. We can say that it helps to determine the various personnel policies like promotion, demotion, transfer, training or development etc.

In the field of human resource accounting, the concept of return on investment is a popular concept. When something is invested in employees, the return is always expected in a positive form. If the negative returns are coming in terms of employees productivity and performance, the employee will be treated as liability. The return is always assessed and evaluated. Integration will help organizations to review this concept as well.

4.7 SUMMARY

01. Human resource accounting, Human resource audit, Human resource research and Human resource information system are some of the important topics which come under the subject matter of human resource management. Human resource development is now viewed as the fundamental aspect not only for organization but also for the governments of the various nations across the world.

- The human resource accounting system is an ideology where the people are taken as inputs. With the help of subsystems, the output is measured. If the expenses on the people are more and output is less, the situation is said to be generating negative or no returns. If the expenses on the inputs is less and the output contributed by the people is more, the situation is said to be generating returns on investment.

1. Developing a human resource accounting system involves a strategic approach. The approach needs to be aligned and integrated with the human capital and finance department. To develop an effective system, it is important for an organization to work diligently. The

process of developing a human resource accounting system is systematic in nature.

- Implementing a human resource accounting system needs a careful analysis and process to be initiated at top level. Before implementation, it is important to communicate the benefits of the human resource accounting system to the key stakeholders of the organization.

- The integration of the human resource accounting system with other accounting systems is an important activity. The human resource department cannot work in isolation. The four core departments of organizations are dependent on each other.

- Another reason to integrate the human resource information system with other accounting systems is to ensure accurate financial matters reporting. If the system is integrated, the payroll information will be processed more easily as everything is on system. The benefits, costs and expenses can be checked and evaluated anytime if the system is integrated with other accounting systems.

- It also helps organizations in deciding the policies related to compensation management. It provides the information with regard to the cost associated with the employee and the reward and returns given by the employees.

4.8 SELF ASSESSMENT TESTS

- Explain the need to develop a Human Resource Accounting System.
- How are Human resource accounting, Human resource audit, Human resource research and Human resource information system related to each other.
- What is the Human Resource Accounting System? Explain the various types of costs to be considered while studying this concept.
- Write down the steps in developing the Human Resource Accounting System.
- What measures are needed to be taken while implementing the Human Resource Accounting System?
- Why is integration of the Human Resource Accounting System needed with other accounting systems?
- Explain the core areas of Human Resource Accounting System.

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5

HUMAN RESOURCE SCORECARD

Unit Structure

5.1 OBJECTIVES

After studying this module, you should be able to :

- Study the concept of human resource management
- Assess the importance of human resource audit
- Understand the concept of human resource scorecard
- Know about the constituents of HR scorecard
- Study the concept of HR scorecard as an instrument in HR Audit

5.2 INTRODUCTION

Out of all the resources of management, man is the living and the most important resource of the organization. The main objective of human resource management is to manage the people at the workplace. From their acquisition to their exit, the subject matter of human resource management deals with the overall functions related to the people of the organization.

The human resources of the companies must be managed and developed in terms of the current strategic orientation of the company. The subject area of human resource development covers the development of skills, knowledge, abilities and capacities of the employees and managers. Through the framework of human resource development, employees can develop their skills, knowledge and abilities. It helps them to work more efficiently.

The field of human resource management is based on certain principles and policies. The philosophy of being focused on the people helps the organization to achieve its objectives. The human resource management function is present everywhere. It is pervasive in nature. It includes all the levels of the organization. The function is not associated with a single department. It manages employees from top to bottom.

Human resource management is based on management functions and principles. Managing people at the workplace is an important part of human resource management. Management functions hiring, training, development, compensation; motivation, communication, and administration etc of employees are taken care of by human resource management.

The starting point of human resource management is to define the philosophical approach which helps in defining the vision and mission related to the human resources of the organization. The long term goal of any organization is to grow and develop through the development of human resources. Philosophies define the integrated set of beliefs and assumptions about the way things are and should be. In the field of management, there is a separation of ownership and management.

The human resource philosophies play a vital role in determining the overall policies of the organization related to the human resources. It is related to the strategic approach related to human resources. For competitive advantage and growth and development of the organization, the human resources policies involve a set of interrelated policies with ideological and philosophical approach.

In the present chapter, we will see how things are emerging and changing in the field of human resource management. In the field of human resource management, the concept of human resource accounting does the same. The decisions related to the personnel policies are taken on the basis of human resource accounting. One more concept which is important in human resource accounting is the HR scorecard.

5.3 HUMAN RESOURCE MANAGEMENT AND AUDIT

5.3.1 HUMAN RESOURCE MANAGEMENT

Human beings are treated as assets. The information, skills, ideas and intuition are managed properly to extract the best from the employees. In few organizations, the employees proved themselves to be a cost or liability for an organization. If managed and trained properly, the human resources are said to be an asset for the organization.

Human resource management deals with the overall functions of procuring, hiring, training, motivating and maintaining the human resources of the organization. The operative functions of HRM includes procurement, development, compensation, motivation, maintenance and integration and emerging trends. The management functions of human resource management includes planning, organizing, directing and controlling.

Human resource management also deals with the management of change. Though, management of change is a pure management concept. When a manager plans for change, communicate the need of change to the people, assure them about the positive aspects of change and implement the same with the support of the people. This process is called change management. It is like managing those things which are inevitable, consistent and create fear in the mind of the people. The concept of change management plays a vital role in any organization. The task of managing change is not an easy task.

Manpower planning is also an integral part of human resource management. It deals with the difference between acquired people and required people. Effective manpower planning helps an organization to achieve goals and objectives. No product or service can be produced without manpower. Proper management and development plans are required to maintain this important resource. The concept of human resource accounting helps the HR manager to assess the cost and value of an employee in an and for an organization. At the organizational level, committees are set up to study and understand the problems of the human resource. The shifting subject matter of human resource management is now on human resource development. In simple words, the more importance is now given on development of human resources rather than maintenance.

5.3.2 DEFINITION

The concept of Human Resource Management is concerned with hiring, promoting, maintaining and controlling the human resource of the organization. Different authors have given different definitions of the term ―Human Resource Management. Some of the important definitions are given below -

In the words of ***Dale Yoder,*** "Manpower management effectively describes the process of planning and directing the application, development and utilization of human resources in employment."

According to the Indian ***Institute of Personnel Management,*** "Personnel Management is the part of the management function which is primarily concerned with human relationships within an organization. Its objective is the maintenance of those relationships on a basis which, by considering the well-being of Human Resource Management."

5.3.3 CONCEPTUAL FRAMEWORK

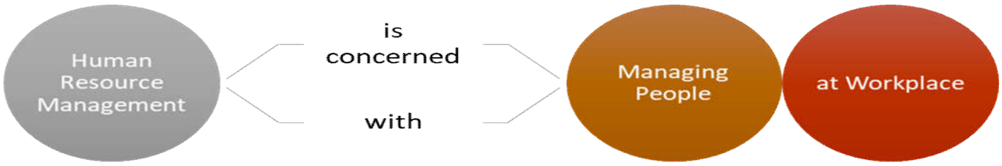

Fig. 5.1: Concept of Human Resource Management

5.3.4 HUMAN RESOURCE AUDIT

A human resource audit is an effective tool to analyze the performance of the human resource department of an organization. It is used to evaluate and analyze the performance of the human resource department and its resources. In simple words, a human resource audit is an examination and evaluation of policies and practices to assess the working of the human resource department.

The survey which is organized to collect data under the name of human resource audit aims to collect the data systematically. The operative functions like procurement and acquisition, development, maintenance, compensation and integration. And the management functions like planning, organizing, directing and controlling are standardized and then measured with the actual performance to evaluate the working of the human resource department.

In the words of Flippo, "The Personnel audit is a systematic survey and analysis of all operative functions of personnel with a summarized statement of findings and recommendations for correction of deficiencies. Yoder stated that, "Personnel Audit refers to an examination and evaluation of policies, procedures, practices, to determine the effectiveness of personnel management."

The resources are also evaluated in the whole audit process. The audit team can incorporate bars, graphs, charts, schedules if needed to present the data collected. The process is time expensive and requires effort. An organization is expected to make the arrangements once in a year to have a systematic process of audit. It is important for an organization to have a basic understanding about the requirements to run. The human resource audit ensures that the assessment is done by considering all the important factors and are in adjustment with the predetermined organizational goals, vision and mission of the organization, legitimate requirements and the fruitful practices.

A manager after analyzing the scope and type develops a questionnaire to collect the data which is required for the audit. The human resource audit is prepared on the basis of the findings, results, conclusion and recommendations of the audit. The human resource audit report serves as an outline which includes the assessment, results and suggestions. The findings are outlined after the detailed assessment of the data collected during the process of audit.

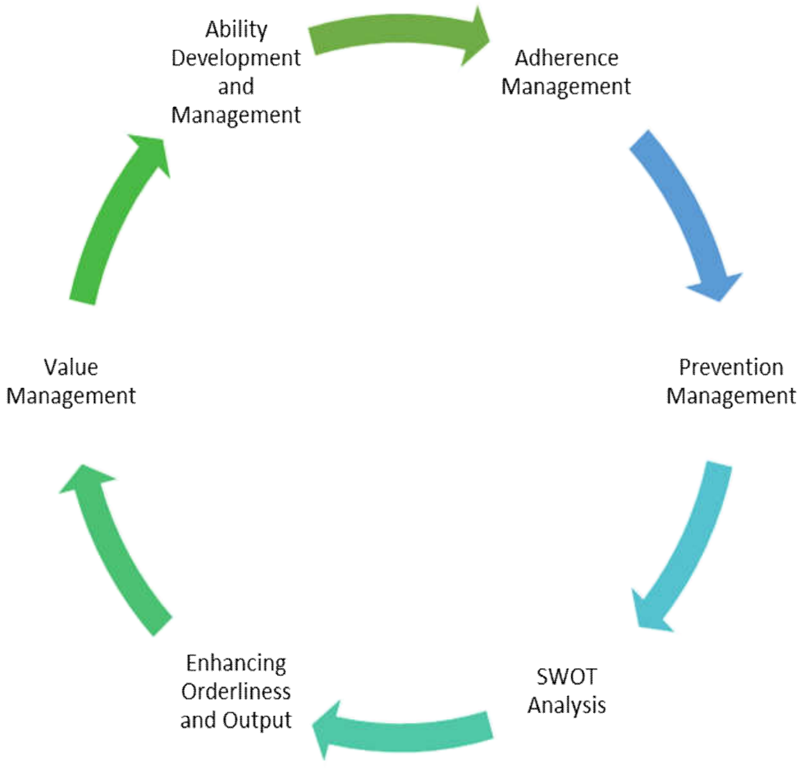

Fig. 5.2: Scope of Human Resource Audit

The scope of human resource audit is very vast and covers compliance management, risk minimization and prevention management, SWOT Analysis, enhancing orderliness and output, value management etc.

5.4 HUMAN RESOURCE SCORECARD

5.4.1 MEANING

The concept of HR scorecard was first coined by David Norton and Robert Kaplan in the name of balanced scorecard. They published a management book in 1996. The name of the book was “The Balanced Scorecard”. In this book, they elaborated the balanced scorecard theories. Later, the balanced scorecard specifically came as HR scorecard in the field of human resource management.

The concept of HR scorecard is not widely recognized and accepted. Though in today’s business world, it is becoming an integral part of the field of human resource accounting. To enhance employee engagement, this tool is used to measure the effectiveness of the working of the employee and organization. After appearing in the exam, we all waited for the result. The scorecard used to be treated as the mark of the efforts put by the student in an exam. In an organization, the same is the thing with HR scorecards. Employees are working and their work needs to be assessed, evaluated and praised by the organizations.

Now it's time to unveil the suspense of the HR scorecard and its relevance in the field of human resource accounting. HR Scorecard is a tool through which the engagement of employees is measured. Apart from these, it is used to communicate the HR metrics and key performance indicators to the various departments to meet the requirements of achieving organizational goals. This tool of human resource management plays a crucial role in knowing the performance and engagement of employees. HR scorecard provides a comprehensive base to align the HR practices with the goals of the organization.

HR covers the following aspects which are required to be studied properly

- Selection of metrics
- Establishing the standards and targets
- Collection of data
- Analysis of data
- Action, communication and follow up

In simple language, an HR scorecard consists of a set of metrics, standards and indicators which are aligned with the organizational goals. These indicators help people to move in the same direction. The HR metrics are measured, tracked and communicated by the concerned person to the employees. The HR department is considered as one of the most important departments of the organization. The HR scorecard helps to measure the contribution and effectiveness of the employees and department in an organization. The companies like Rockwater, Apple Computer, and Advanced Micro Devices are using HR scorecards to set the standards and measure the performance of the employees.

The key indicators of businesses are identified and aligned with the organizational goals. The other name given by the enterprises to this component is -

1. HR Metrics
2. Key Performance Indicators
3. HR KPIs
4. HR Indicators
5. HR Standards
6. HR Deliverables

5.4.2 CONCEPTUAL FRAMEWORK

A conceptual framework provides an outline about the topic of the subject. With the help of the figure given below, we can understand the concept of HR Scorecard more easily -

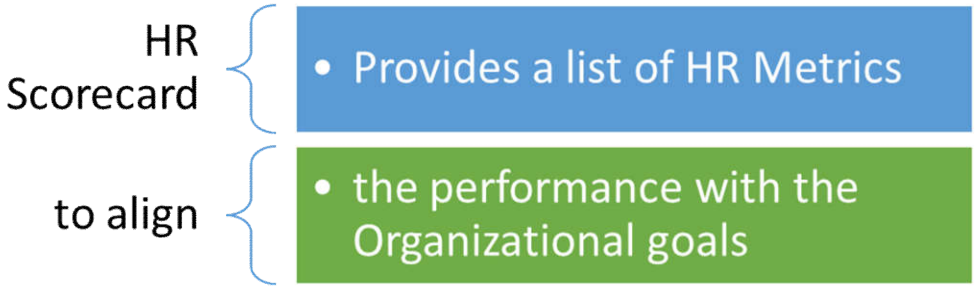

Fig. 5.3 HR Scorecard

HR scorecard serves as a set of metrics, standards and indicators which are aligned with the organizational goals. These indicators help people to move in the same direction. The HR metrics are measured, tracked and communicated by the concerned person to the employees.

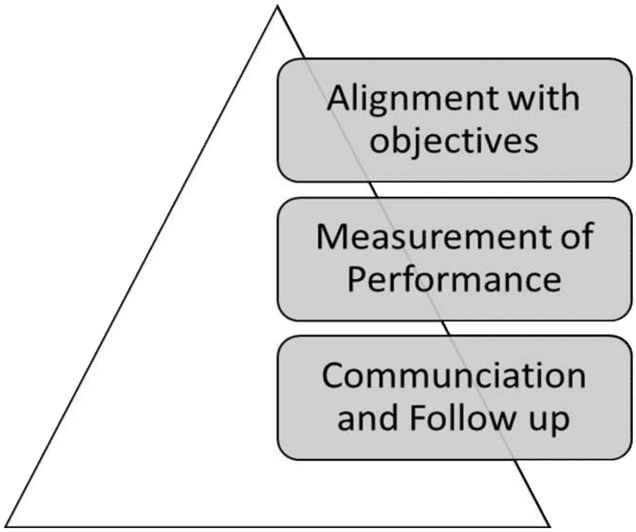

Fig. 5.4: Parameters of HR Scorecard

- **Alignment with Objectives**

HR scorecard provides a comprehensive base to align the HR practices with the goals of the organization.

- **Measurement of Performance**

HR Scorecard is a tool through which the engagement and performance of employees is measured.

- **Communication and Follow-up**

Communication and follow up are the key factors. The HR metrics are measured, tracked and communicated by the concerned person to the employees.

- HR Scorecard is all about linking
- People
- Strategy
- Performance

When the people are linked with the strategies of the organization, it helps them to understand the relevance of the organizational goals. It is observed that when things are clear, the performance of the employees is more enhanced and productive.

5.4.3 PURPOSE OF HR SCORECARD

The HR scorecard acts as a platform to bridge the gap between desired and actual parameters. HR scorecard serves the following purposes -

1. To select and provide the most relevant metrics to align with organizational goals.
2. To serve as a tool through which the engagement and performance of employees is measured.
3. To measure, track and communicate the employees about the key metrics.
4. To measure the contribution and effectiveness of the employees and department in an organization.
5. To provide a way for continuous improvement.
6. To serve as a tool of human resource accounting and audit.

5.5 CONSTITUENTS OF HR SCORECARD

Key performance indicators or key metrics are identified to communicate to the business leaders for working towards the goals of the organization. The following are some key performance indicators of HR scorecard -

Source:https://blog.darwinbox.com/hr-scorecard#:~:text=The%20HR%20scorecard%20is%20a,potential%20growth%20of%20the%20organization.

1. Employee Engagement and Performance Metric
2. Employee Retention Rate
3. Turnover Rate
4. Absenteeism Rate
5. Training and Development Needs Assessment criteria
6. Hiring Policies
7. Firing Policies
8. Employee Satisfaction Level
9. Cost Per Hire
10. Cost Per Fire
11. Productivity Rate
12. Promotion, Demotion and Transfer Rate
13. Employee's Net Promoter Score
14. Costs of Training and Development
15. Induction Policy
16. Placement Policy
17. Period between Selection and Placement

18. Leave Record

19. Record Keeping

20. Employees Attendance Rate

21. Average Months Placement Rate

22. Changing Human Index Ratio

23. Customer Feedback

24. Learning costs

25. Growth opportunities

Apart from this aspects, the key performance indicators can be lined up in the following way -

Fig. 5.5: Constituents of HR Scorecard

- **Internal Business Goals**

Internal business goals refers to the targets and objectives which an organization is expected to achieve through internal business processes. The goals and deliverables are expected to be clearly well defined. To improve the continuity, quality and efficiency of the organization, the internal business goals are important. These parameters are internal to an organization. The internal business goals come under the category of controllable factors.

- **Commercial Goals**

Commercial Or financial goals are the key parameters which come under the constituents of HR scorecard. A finance manager is expected to bring balance between the three major objectives of the financial management of the organization. These objectives are -

a. Financing decisions

b. Investment decisions

c. Dividend decisions

- **Customer Goals**

Keeping customers happy is the biggest task and achievement now-a-days. Customer goals refers to the target of keeping customers happy, satisfied and content with the goods and services offered by the company. There are certain other goals which comes under this category like -

- Environment protection
- Consumer safety
- Information and communication
- Complaint redressal mechanism
- Social responsibility
- Awareness programs etc.

- **Innovative Practices Goals**

Innovative practices are considered blessings. Innovative practices in the various domains of human resource management can bring new positive changes in the working of the organization. The HR scorecard advocates policies which can provide a platform to do things in an innovative way.

- **Training and Development Goals**

The training and development goals constitute the major part in the HR Scorecard. A balanced policy for learning, training and development of employees is needed to have a perfect match in HR scorecard. There are various programs for employee skill development that need to be aligned with organizational goals.

5.6 HR SCORECARD AS AN INSTRUMENT IN HR AUDIT

Auditing helps organizations to have a detailed assessment about the performance of the enterprise's policies, procedures, practices and code of conduct with respect to the human resource department. HR practices help to determine the morale and motivation level of employees. Every organization strives to perform best when it comes to the operative and management functions of the human resource department.

The audit of the human resource department plays a vital role in assessing the working of the HR practices in an organization. The businesses are affected by many internal and external forces. The human resource audit serves important purposes and plays a vital role in the business environment.

HR scorecard serves as an instrument in HR audit because it ensures that the human resource policies and procedures of the organization are in compliance and balanced with the laws and legal formalities, regulations are observed, meeting industry and firm standards. The internal policies of the organization are properly designed and prepared. Ensuring compliance is one of the important elements of an organization because this factor helps the organization to grow and survive in a market for a long term.

When the key performance indicators are conveyed and communicated clearly, it helps organizations to prevent the risks which can arise in organizations. Compliance and adherence to the rules and regulations always ensure that the organizations are reducing the risk of getting into trouble with respect to legal compliance's at front. Human resource audit minimizes the risk of legal issues, fines and suits related to the HR practices. A firm can reduce issues like discrimination, improper recruitment, biases in the selection process etc.

In HR scorecard, SWOT analysis is a technique through which businesses can be evaluated. This technique helps businesses to identify the strength and weakness which are internal factors. It also helps to assess the external factors like opportunities and threats. Though HR audit covers the internal factors, it also helps organizations to find the external factors as well. Ensuring that while doing audit all factors are considered give confidence to the team to work better in future. Clarity provides a proper way to the targets and goals of the organization. Through this technique, the productivity and the potentiality of the employees can be increased.

HR scorecard advocates the orderliness and discipline to be aligned with organizational goals. In the HR scorecard, The role of human resource audit in a business environment is to support the working of the human resource department and improve the overall efficiency of the organization. The audit includes the aspects like technology life cycle, technology availability and utilization, the system of human resource and the Enterprise Resource Planning. The proper working of these aspects ensure that the orderliness is maintained and output is enhanced.

Through human resource audit, it is ensured that the talent acquisition, development, and retention policies of the organization are well aligned with the system and contribute towards the goal of the organization. Evaluating the management policies to maintain and retain the value of employees plays a significant role in assessing where the organization can improve further to maintain the present level. When an employee joins, it is difficult to ascertain the performance in the first place. As this passes, the efficiency and productivity of an employee company assess and observe. The able employees through audit are identified. Companies try their level best to preserve, develop and maintain the able and talented employees in an organization.

Fig.: HR Scorecard and HR Audit

5.7 SUMMARY

01. Human resource management deals with the overall functions of procuring, hiring, training, motivating and maintaining the human resources of the organization. The operative functions of HRM includes Procurement, development, compensation, motivation, maintenance and integration and emerging trends. The management functions of human resource management includes planning, organizing, directing and controlling.

02. A human resource audit is an effective tool to analyze the performance of the human resource department of an organization. It is used to evaluate and analyze the performance of the human resource department and its resources. In simple words, a human resource audit is an examination and evaluation of policies and practices to assess the working of the human resource department.

03. HR Scorecard is a tool through which the engagement of employees is measured. Apart from these, it is used to communicate the HR metrics and key performance indicators to the various departments to meet the requirements of achieving organizational goals. This tool of human resource management plays a crucial role in knowing the performance and engagement of employees. HR scorecard provides

a comprehensive base to align the HR practices with the goals of the organization.

04. Key performance indicators or key metrics are identified to communicate to the business leaders for working towards the goals of the organization. The key performance indicators of HR scorecard are customer goals, financial goals, innovation goals etc.

05. The audit of the human resource department plays a vital role in assessing the working of the HR practices in an organization. The businesses are affected by many internal and external forces. The human resource audit serves important purposes and plays a vital role in the business environment. HR scorecard serves as an instrument in HR audit because it ensures that the human resource policies and procedures of the organization are in compliance and balanced with the laws and legal formalities, regulations are observed, meeting industry and firm standards

5.8 SELF ASSESSMENT TESTS

- What is a Human resource audit? Explain the important features of human resource audit.
- Point out the difference between human resource audit and human resource accounting.
- What is an HR scorecard?
- Explain the various constituents of the HR scorecard.
- Explain the relationship between human resource audit and HR scorecard.
- Write a detailed note on HR scorecard as an instrument in HR Audit

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6

HUMAN RESOURCE AUDIT

Unit Structure

6.1 OBJECTIVES

After studying this module, you should be able to :

01. Know the concept of human resource audit
02. Study the Role of Human Resource Audit in Business Environment
03. Understand the objectives and components of human resource audit
04. Know about the Benefits and Importance of HR Audit
05. Understand the overall concept of audit

6.1 INTRODUCTION

The term human resource audit is also known as Personnel Audit. It not only evaluates the issues related to the human resource department but also provides a solution to solve the issues and problems. The various aspects which are evaluated are policies, strategies, practices, procedures and methodology.

A human resource audit is an effective tool to analyze the performance of the human resource department of an organization. It is used to evaluate and analyze the performance of the human resource department and its resources. In simple words, a human resource audit is an examination and evaluation of policies and practices to assess the working of the human resource department.

The survey which is organized to collect data under the name of human resource audit aims to collect the data systematically. The operative functions like -

- Procurement and acquisition
- Development
- Maintenance
- Compensation
- Integration

And the management functions like planning, organizing, directing and controlling are standardized and then measured with the actual performance to evaluate the working of the human resource department. In the words of Flippo, "The Personnel audit is a systematic survey and analysis of all operative functions of personnel with a summarized statement of findings and recommendations for correction of deficiencies. Yoder stated that, "Personnel Audit refers to an examination and evaluation of policies, procedures, practices, to determine the effectiveness of personnel management." The resources are also evaluated in the whole audit process. The audit team can incorporate bars, graphs, charts, schedules if needed to present the data collected. The process is time expensive and requires effort. An organization is expected to make the arrangements once in a year to have a systematic process of audit.

6.2 HUMAN RESOURCE AUDIT

6.2.1 MEANING

A human resource audit report is a document which is prepared after the completion of human resource audit is conducted. It is a tool which helps to measure the performance of the human resource department and its working. The scope of human resource audit is comprehensive in nature. The human resource audit report serves as an outline which includes the assessment, results and suggestions.

In simple words, a human resource audit report is a broad document and it defines the assessment, results and suggestions from the detailed examination of an enterprise's policies, procedures, practices and code of conduct. It helps organization to measure and examine the -

- Efficiency
- Effectiveness
- Adherence of the organization's code of conduct and the working and the functionality of the human resource department.

It is important for an organization to have a basic understanding about the requirements to run. The human resource audit ensures that the assessment is done by considering all the important factors and are in adjustment with the predetermined organizational goals, vision and mission of the organization, legitimate requirements and the fruitful practices.

The human resource audit report is prepared after the comprehensive evaluation of various parameters of the human resource department of the organization. Determining the scope and types of audit helps organizations to cover various aspects. A manager after analyzing the scope and type develops a questionnaire to collect the data which is required for the audit. The human resource audit is prepared on the basis of the findings, results, conclusion and recommendations of the audit. When the comprehensive evaluation of an organization is done by considering the HR Practices, complaints, policies and procedures, a human resource audit report is prepared on the basis of these parameters.

A human resource audit report is a broad document and it defines the assessment, results and suggestions from the detailed examination of an enterprise’s policies, procedures, practices and code of conduct. It helps organizations to measure and examine the efficiency, effectiveness and adherence of the organization's code of conduct. It provides a thorough evaluation of all the aspects of the organization related to human resources.

The human resource audit report provides a basic understanding about the working of the human resource functions of the organization. The human resource audit report is prepared after the comprehensive evaluation of various parameters of the human resource department of the organization. The human resource audit report serves as an outline which includes the assessment, results and suggestions. The findings are outlined after the detailed assessment of the data collected during the process of audit.

The human resource audit report helps to measure the performance of the company’s human resource department. The audit report covers all the areas of human resource functions like their policies, strategies, procedures, adherence, practices etc.

6.2.2 FEATURES OF HUMAN RESOURCE AUDIT REPORT

The following are the important features of human resource audit report -

- Human resource audit reports provide an outline to ***measure the performance*** of the human resource department.

- It provides a ***basic understanding*** about the working of the human resource functions of the organization.
- It serves as an ***outline*** which includes the assessment, results and suggestions.
- Human resource audit report provides a ***broad assessment and evaluation*** of all the aspects of the organization related to human resources.
- A human resource audit report is always prepared ***after the audit process.***

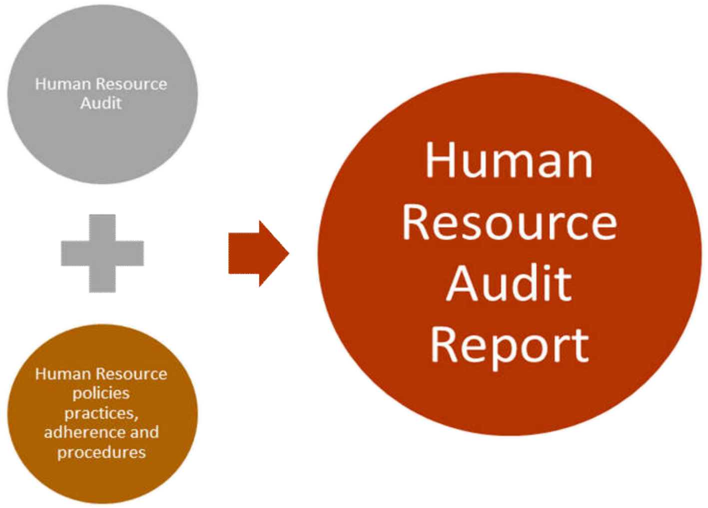

Fig. 6.1: Human Resource Audit Report

- The purpose of the human resource audit report is to provide a platform to the organization for ***continuous improvement.***
- ***Preparing and designing*** a human resource audit report needs careful assessment and diligent work.
- An organization is expected to have a dedicated ***audit team*** who are knowledgeable and experts in this field.
- The process of preparing a report is ***systematic*** in nature.
- The audit team decides the ***methodology and the type*** through which the audit will be conducted.

6.3 ROLE OF HUMAN RESOURCE AUDIT IN BUSINESS ENVIRONMENT

As mentioned earlier, auditing helps organizations to have a detailed assessment about the performance of the enterprise's policies, procedures, practices and code of conduct with respect to the human resource department. HR practices help to determine the morale and motivation level of employees. Every organization strives to perform best when it comes to the operative and management functions of the human resource department.

The audit of the human resource department plays a vital role in assessing the working of the HR practices in an organization. The businesses are affected by many internal and external forces. The human resource audit serves important purposes and plays a vital role in the business environment.

Fig. 6.2: Role of Human Resource Audit in Business Environment

01. Adherence Management

Adherence means ensuring that the human resource policies and procedures of the organization are in compliance and balanced with the laws and legal formalities, regulations are observed, meeting industry and firm standards. The internal policies of the organization are properly designed and prepared. Ensuring compliance is one of the important elements of an organization because this factor helps the organization to grow and survive in a market for a long term.

02. Prevention Management

Organizations always advocate that prevention is better than cure. Compliance and adherence to the rules and regulations always ensure that the organizations are reducing the risk of getting into trouble with respect to legal compliance at front. Human resource audit minimizes the risk of legal issues, fines and suits related to the HR practices. A firm can reduce issues like discrimination, improper recruitment, biases in the selection process etc.

03. SWOT Analysis

SWOT analysis is a technique through which businesses can be evaluated. This technique helps businesses to identify the strength and weakness which are internal factors. It also helps to assess the external factors like opportunities and threats.

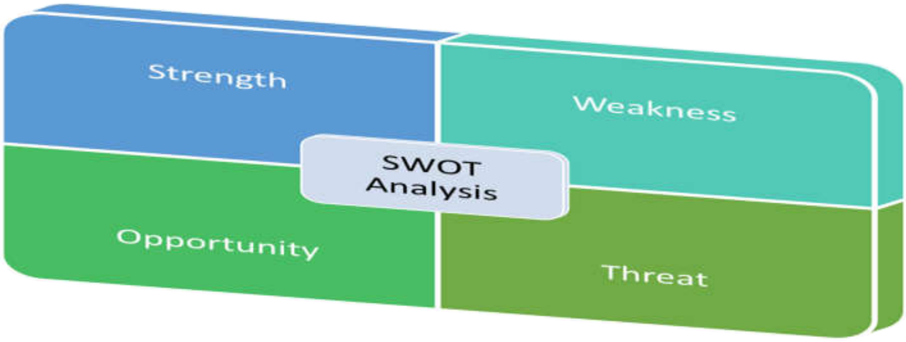

Fig. 6.3: SWOT Analysis

Though HR audit covers the internal factors, it also helps organizations to find the external factors as well. Ensuring that while doing audit all factors are considered give confidence to the team to work better in future. Clarity provides a proper way to the targets and goals of the organization. Through this technique, the productivity and the potentiality of the employees can be increased.

04. Enhancing Orderliness and Output

The role of human resource audit in a business environment is to support the working of the human resource department and improve the overall efficiency of the organization. The audit includes the aspects like -

- Technology life cycle
- Technology availability and utilization
- The system of human resource
- Enterprise Resource Planning etc.

The proper working of these aspects ensure that the orderliness is maintained and output is enhanced.

- **05. Value Management**

The subject matter of human resource management deals with the acquisition, development, maintenance and control of human resource in an organization. Through audit, it is ensured that the talent acquisition, development, and retention policies of the organization are well aligned with the system and contribute towards the goal of the organization. Evaluating the management policies to maintain and retain the value of employees plays a significant role in assessing where the organization can improve further to maintain the present level.

06. Ability Development and Management

Human resource department is the most vital part of an organization. When an employee joins, it is difficult to ascertain the performance in the first place. As this passes, the efficiency and productivity of an employee company assess and observe. The able employees through audit are identified. Companies try their level best to preserve, develop and maintain the able and talented employees in an organization.

6.4 OBJECTIVES OF HR AUDIT

The following are the objectives of human resource audit -

- To assess the performance of the organization.
- To identify the HR policies and practices are aligned with the legitimate requirements.
- To provide a platform for continuous improvement.
- To provide a detailed report about the performance of the human resource department.
- To define the assessment, results and suggestions from the detailed examination of an enterprise's policies, procedures, practices and code of conduct.
- To improve the human resource practices of the organization by providing suggestions after the detailed examination.
- To implement changes to enhance the productivity of the overall organization.

6.5 CONCEPTS OF HUMAN RESOURCE AUDIT

As mentioned earlier,The term human resource audit is also known as Personnel Audit. Human resource audit is an effective tool to analyze the performance of the human resource department of an organization. Audit is all about evaluating the relationship between the cost incurred on the department and the benefits in terms of performance, identifying loopholes and correcting the gap to achieve organizational efficiency. The process of human resource audit is used to evaluate and analyze the performance of the human resource department and its resources.

To have a better understanding, here are some important concepts of human resource audit for the study purpose -

Fig. 6.4: Concepts of HR Audit

Policy Audit

Policies is a set of code of conduct that defines an organizational approach. Policy documents serve as a guideline as it provides a basis for decision making. There are various policies which serve as a document and provide guidelines to the company. On the basis of following aspects, a policy audit can be performed -

- HR policies
- Compliance policies
- Gap analysis
- Risk assessment
- Legal requirements
- Optimum practices etc.

Strategy Audit

Strategies are made for the long term. Strategies help organizations to build a system which is expected to last for a long term. The top level management of the organization contributes their lots of efforts and energy to prepare the strategies of the organization. Strategy audit covers the evaluation of the organization's -

- Objectives
- Targets
- Scope and purpose

- Competitive level
- Approaches towards the organizational goals
- Vision and mission

Strategy audit helps to refine the existing policies and it helps organizations to address new issues and challenges which arise due to the changes and competition in the market.

HR Practices Audit

HR practices audit refers to the evaluation of the policies, practices and procedures of the human resource department. It ensures that the policies and working of the HR department is aligned and in compliance with all the rules and regulations. The HR practices audit covers the following aspects -

- Personnel policies
- Employees participation
- Employees engagement
- Grievance redressal mechanism
- Compensation and benefits
- Employment laws and regulations
- Compliance etc.

Procedure Audit

Procedure audit refers to the systematic and detailed evaluation of the processes of the organization. The procedure audit deals with the mechanism of handling the standards which are required to maintain the operations and processes of the organization. The procedure audit covers the following aspects -

01. Tools
02. Processes
03. Documentation
04. Accuracy in working
05. Alignment of procedures
06. Contribution towards organizational goals
07. Report system
08. Deviation management
09. Follow up system

- **Methodology Audit**

The methodology audit covers the assessment of the effectiveness and results of the method used by the organizations. The purpose is to ensure that the methods are effective, efficient and in alignment with the requirements of the present competitive world.

- **Compliance Audit**

Compliance audit is a type of audit which conducts an evaluation and examination of the system pertaining to following the rules, regulations, policies and code of conduct of the organization. This audit is essential for ensuring that the organization is working within a legal framework and complying all the rules and regulations. It helps organizations in minimizing legal suits and liabilities.

6.6 COMPONENTS OF HR AUDIT

The audit of the human resource department plays a vital role in assessing the working of the HR practices in an organization. The businesses are affected by many internal and external forces. The human resource audit serves important purposes and plays a vital role in the business environment. The following components are generally considered under the audit system -

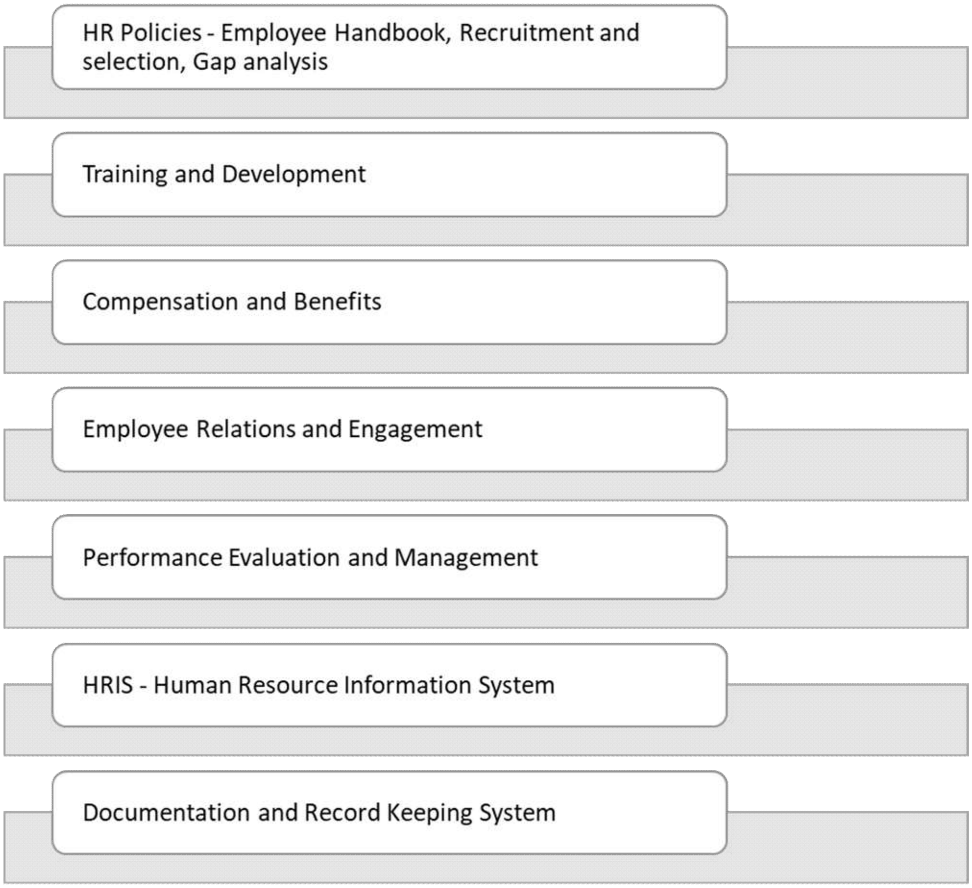

Fig. 6.5 Components of HR Audit

6.7 NEED OF HR AUDIT

Human resource audit is a systematic evaluation of the HR practices of the organization. It is generally said that in the long run, the business houses are not made by the product, money, or resources but by the people. For the survival and success of any business, the working of the HR department needs to be evaluated and assessed.

The need of HR audit is felt due to following reasons -

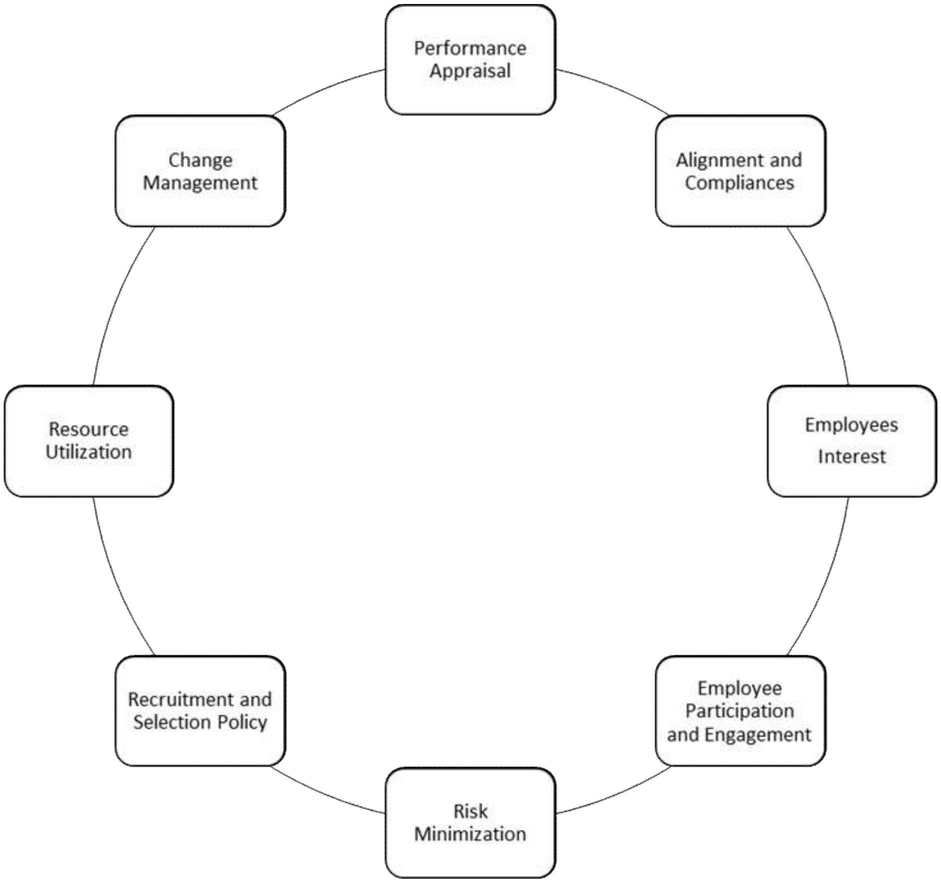

Fig. 6.6: Need of HR Audit

Performance appraisal

Performance appraisal is a technique through which the evaluation of the work of employees takes place. When the human resource audit is done, it helps to assess the performance and productivity of the employees in terms of the work produced by them and the standards set by the organization.

Alignment and Compliance

The human resource audit is needed to ensure that the organization is in alignment with the strategies and the employment related rules and regulations are followed. A proper audit system helps organizations to reduce the legal risk and liabilities. It also ensures that the proper code of conduct is followed in every aspect with respect to the working of the Human Resource Department.

Employees Interest

The human resource audit helps to find out the level of interest and enthusiasm among the employees. The central theme of the Human Resource Department is the human resource of the organization. The efforts initiated by the HR department should create an interest among the employees to enhance their productivity and performance. Their work is going in the right way or not can be identified with the help of human resource audits.

Employees Participation and Engagement

Human human resource audit helps to identify the participation of employees and their engagement in the various activities of the organization. HR audit is a detailed examination of the policies, practices and procedures of the Human Resource Department.

Risk Minimization

A human resource audit is essential for ensuring that the organization is working within a legal framework and complying all the rules and regulations. It helps organizations in minimizing legal suits and liabilities. Compliance audit is a type of audit which conducts an evaluation and examination of the system pertaining to following the rules, regulations, policies and code of conduct of the organization. It helps to mitigate risk.

Recruitment and Selection Policy

Recruitment and selection are important aspects of Human Resource Management. Acquiring the right people for the right job at the right place is essential. Though recruitment and selection policy comes under the HR practice, it is essential to discuss this point separately. Human resource audit helps with recruitment and selection policy of the organization. That's why, audit is needed to evaluate the transparency and effectiveness of this policy.

Resource Utilization

Time, manpower and finance are allocated and utilized as per the requirement of the organization. These resources are important and need to be utilized properly. Audit provides a platform through which this can be seen that the proper utilization of resources is happening or not.

Change Management

Change management is an important aspect. Audit helps to identify how well an organization is prepared for the various types of change. It helps organizations to manage change in advance or before it arises.

6.9 METHODOLOGY AND INSTRUMENT OF HUMAN RESOURCE AUDIT

Human resource audit is a tool of human resource management. There are various methodologies and instruments to measure the performance of the human resource department. These methodologies and instruments vary from industry to industry, place to place and firm to firm.

The following are the methodologies and tools of conducting human resource audit in an organization -

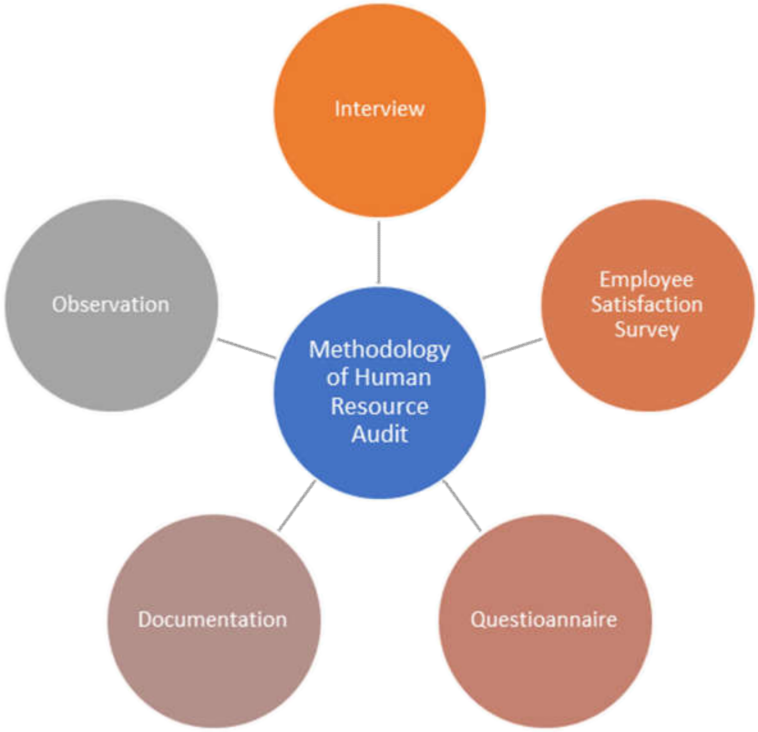

Fig. 6.7: Methodology and Tools of Human Resource Audit

- **Interview**

Interview is one of the important tools of conducting audits in an organization. The people are interviewed on various aspects. The interview is taken to know the perspective of the employees on various parameters. This technique helps organizations to know the various aspects. These aspects are required for the development of the organization. The top level, middle level and lower level staff are interviewed to understand their perspective.

Employee's -

1. Perception
2. Attitude
3. Experience
4. Morale level
5. Thinking

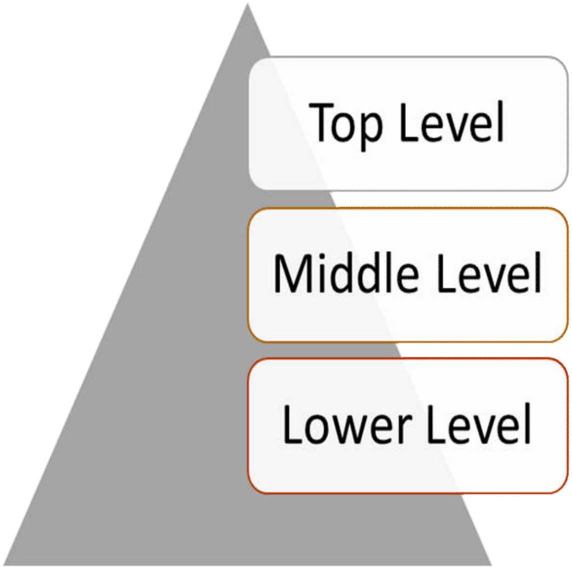

Fig. 6.8: Levels of Management

- **Employee Satisfaction Survey**

Employee satisfaction survey is one of the important tools of human resource audit. Employee satisfaction survey refers to the method of conducting the satisfaction level of an employee towards the working environment and his/her job. It is found through the studies that if the employees are satisfied, their productivity is high and if they are not satisfied, their productivity will always be low.

It is important to ensure that the survey is accessible. The following points are taken into consideration while doing the survey -

1. Purpose of the survey should be clear
2. The questions range should be mixed like open ended, close ended, multiple choice questions.
3. Suggestions should be sought from them, not mere information.
4. The length of the survey should be concise.

Their satisfaction level should be studied on the following aspects -

- Job Roles
- Work Environment
- Company Policies
- Training and Development Facilities
- Assessment Policy
- Compensation and Benefits

- Teamwork
- Recognition and Reward Policy
- Working time
- Working duration
- Work from home facility (If they offer)
- Flexible working time

03. Questionnaire

Questionnaire is a structured tool which helps organizations to collect data for the purpose of audit. Without collection of data, the findings, suggestions and recommendations cannot be traced out. Questionnaire consists of a series of questions designed to gather specific types of information related to -

- HR policies
- Compliance policies
- Gap analysis
- Risk assessment
- Legal requirements
- Optimum practices etc.

Fig. 6.9: Aspects of Questionnaire

04. Documentation

Documentation is a process through which the information is recorded, preserved and managed in a structured format. The documentation is created in various forms like written, electronic and visual materials. The documentation provides clear understanding and it ensures clarity in decision making. It serves as a crucial tool for facilitating the work and policies of the organizations.

The following are the types of documentation -

01. Written policies

02. Manuals

03. Handbooks

04. Reports

05. Templates

06. Forms

07. Agreements

08. Contracts

05. Observation

The observation method in human resource audit involves the process of evaluation, examining and witnessing the human resource policies of the organization. The evaluation of HR practices, policies, facilities, processes and compliance are observed and evaluated. After the whole process of observation, the report is prepared to conclude and suggests things.

6.10 THE AUDIT PROCESS AND ISSUES IN HR AUDIT

A human resource audit is an examination and evaluation of policies and practices to assess the working of the human resource department. The operative functions like procurement and acquisition, Development and maintenance and the management functions like planning, organizing, directing and controlling are standardized and then measured with the actual performance to evaluate the working of the human resource department.

As mentioned earlier, HR audit helps organizations to minimize the risk of legal suits and complaints. But, there are certain issues which arise in the process of audit. These issues are needed to be addressed -

- For audit, keeping HR records is important. Inadequate record keeping system is a biggest issue in the human resource audit process.

- Evaluation of the performance of the employees is an important task. If the performance of the employees is not measured, it may not serve the purpose of doing a human resource audit. Employees and their performance is the central theme of human resource audit.
- Compliance with the rules and regulations, law's and legislation's is an important aspect. Non-compliance can create trouble for the organizations.
- Inadequate personnel policies is also an issue in the process of human resource audit.
- Faulty recruitment and selection policy also pose a challenge in the efficient working of the human resource department.

6.11 SUMMARY

01. A human resource audit is an effective tool to analyze the performance of the human resource department of an organization. It is used to evaluate and analyze the performance of the human resource department and its resources. In simple words, a human resource audit is an examination and evaluation of policies and practices to assess the working of the human resource department.

02. The audit of the human resource department plays a vital role in assessing the working of the HR practices in an organization. The businesses are affected by many internal and external forces. The human resource audit serves important purposes and plays a vital role in the business environment.

03. Policy audit, strategy audit, HR practices audit are some of the important concepts which come under the field of human resource audit and accounting. These concepts of human resource audit are used to evaluate and analyze the performance of the human resource department and its resources.

04. HR Policies - Employee Handbook, Recruitment and selection, Gap analysis, Compensation and Benefits, Employee Relations and Engagement are some important components of human resource audit.

05. When the human resource audit is done, it helps to assess the performance and productivity of the employees in terms of the work produced by them and the standards set by the organization. The human resource audit is needed to ensure that the organization is in alignment with the strategies and the employment related rules and regulations are followed.The human resource audit helps to find out the level of interest and enthusiasm among the employees.

06. Interview, observation, and employee satisfaction surveys are some important methods and tools of human resource audit. As mentioned earlier, HR audit helps organizations to minimize the risk of legal suits and complaints. But, there are certain issues which arise in the process of

audit. These issues need to be addressed like inadequate record keeping system, non-compliance, Inadequate personnel policies are some of the issues which arise in the process of audit.

6.12 SELF ASSESSMENT TESTS

- What is a Human Resource Audit? Explain the various Components of HR Audit.
- Explain the Role of Human Resource Audit in the Business Environment.
- Explain the various concepts which come under the area of Human Resource Audit.
- What are the needs and objectives of Human Resource Audit.
- Elaborate the Benefits and Importance of HR Audit.
- Write down the Methodology and Instruments of HR Audit.
- Have you heard the name of human resource audit? Explain the audit process and issues involved in HR audit.

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7

HUMAN RESOURCE AUDIT REPORT

Unit Structure

7.1 OBJECTIVES

After studying this module, you should be able to :

1. Know the concept of Human Resource Audit Report
2. Understand the purpose of Human Resource Audit Report
3. Study about the preparation of report design
4. Prepare the Human Resource Audit Report
5. Analyze the important parameters when companies use HR Audit report for business improvement

7.1 INTRODUCTION

7.1.1 MEANING

The term human resource audit is also known as Personnel Audit. Human resource audit is an effective tool to analyze the performance of the human resource department of an organization. Audit is all about evaluating the relationship between the cost incurred on the department and the benefits in terms of performance, identifying loopholes and correcting the gap to achieve organizational efficiency. The process of human resource audit is used to evaluate and analyze the performance of the human resource department and its resources.

Human resource audits not only evaluate the issues related to the human resource department but also provide a solution to solve the issues and problems. The various aspects which are evaluated are -

- Policies
- Strategies
- Practices
- Procedures
- Methodology

It also helps to review the documentation, systems, procedures, strategies and practices of the organization. The assessment of human resource audit is based on certain issues related to HR policies, procedures and practices of the organization. With the help of human resource audit, companies can identify the issues related to any policy, procedure or practice. Once the issue is identified, solutions can be developed. Human resource audit also helps organizations to reduce the operational costs. It not only deals with the costs but also helps companies to ensure the working and compliance of rules and regulations.

The level of audit depends upon the policies and practices of the organization. Audit helps to evaluate the overall working of the organization. It also helps companies to evaluate the major changes which are required to incorporate the companies policies by taking into consideration the internal and external factors.

7.1.2 CONCEPTUAL FRAMEWORK

With the help of diagrammatic presentation, let's have a look into the conceptual framework of human resource audit -

Fig. 7.1: Human Resource Audit

In the next section, we will see the concept of human resource audit report.

7.1.3 DEFINITIONS OF HUMAN RESOURCE AUDIT

According to ***Dale Yoder,*** "Personnel Audit refers to an examination and evaluation of policies, procedures, practices, to determine the effectiveness of personnel management."

According to ***Edwin B. Filippo,*** "The Personnel audit is a systematic survey and analysis of all operative functions of personnel with a summarized statement of findings and recommendations for correction of deficiencies.

From the above definition, it can be concluded that human resource audit is an effective tool to analyze the performance of the human resource department of an organization. It is used to evaluate and analyze the performance of the human resource department and its resources.

7.2 HUMAN RESOURCE AUDIT REPORT

7.2.1 MEANING

When the comprehensive evaluation of an organization is done by considering the HR Practices, complaints, policies and procedures, a human resource audit report is prepared on the basis of these parameters. A human resource audit report is a document which is prepared after the human resource audit. It is a tool which helps to measure the performance of the human resource department and its working. The scope of human resource audit is comprehensive in nature. The human resource audit report serves as an outline which includes the assessment, results and suggestions.

In simple words, a human resource audit report is a broad document and it defines the assessment, results and suggestions from the detailed examination of an enterprise's policies, procedures, practices and code of conduct. It helps organization to measure and examine the -

- Efficiency
- Effectiveness
- Adherence of the organization's code of conduct and the working and the functionality of the human resource department.

It is important for an organization to have a basic understanding about the requirements to run. The human resource audit ensures that the assessment is done by considering all the important factors and are in adjustment with the predetermined organizational goals, vision and mission of the organization, legitimate requirements and the fruitful practices.

The human resource audit report is prepared after the comprehensive evaluation of various parameters of the human resource department of the organization. Determining the scope and types of audit helps organizations to cover various aspects. A manager after analyzing the scope and type develops a questionnaire to collect the data which is required for the audit.

The human resource audit is prepared on the basis of the findings, results, conclusion and recommendations of the audit.

7.2.2 CHARACTERISTICS OF HUMAN RESOURCE AUDIT REPORT

A human resource audit report is a document which is prepared after the human resource audit. It is a tool which helps to measure the performance of the human resource department and its working. The scope of human resource audit is comprehensive in nature. The human resource audit report serves as an outline which includes the assessment, results and suggestions. The following are the characteristics of human resource audit report -

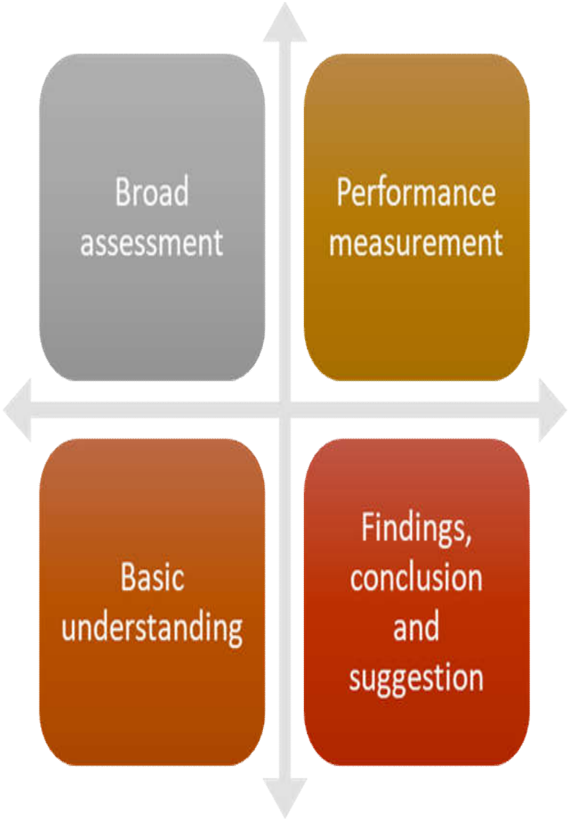


Fig. 7.2 Characteristics of Human Resource Audit Report

- **Broad Assessment**

A human resource audit report is a broad document and it defines the assessment, results and suggestions from the detailed examination of an enterprise's policies, procedures, practices and code of conduct. It helps organizations to measure and examine the efficiency, effectiveness and adherence of the organization's code of conduct. It provides a thorough evaluation of all the aspects of the organization related to human resources.

- **Performance Measurement**

The human resource audit report helps to measure the performance of the company's human resource department. The audit report covers all the areas of human resource functions like -

- Their policies
- Strategies
- Procedures
- Adherence
- Practices etc.

- **Basic Understanding**

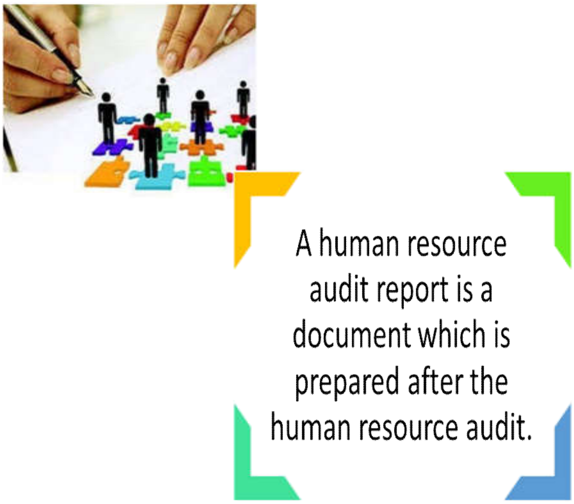
The human resource audit report provides a basic understanding about the working of the human resource functions of the organization. The human resource audit report is prepared after the comprehensive evaluation of various parameters of the human resource department of the organization.

- **Findings, Conclusion and Suggestion**

The human resource audit report serves as an outline which includes the assessment, results and suggestions. The findings are outlined after the detailed assessment of the data collected during the process of audit.

7.2.3 CONCEPTUAL FRAMEWORK

A conceptual framework provides a simple dimension to the concept of the topic. With the help of the figure depicted below, let's understand the concept of human resource audit report -



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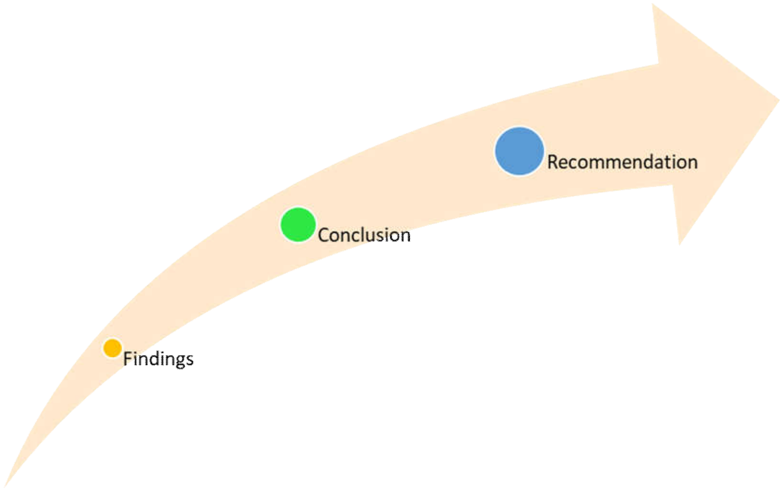

Fig. 7.3: Components of Human Resource Audit Report

It is important to mention the components of the human resource audit report. On the basis of these components, the report gets a standard format. This standard format ensures that the organization is working towards the continuous improvement goal.

7.3 PURPOSE OF HUMAN RESOURCE AUDIT REPORT

The following points serves as the purpose of human resource audit report To define the assessment, results and suggestions from the detailed examination of an enterprise's policies, procedures, practices and code of conduct.

- To improve the human resource practices of the organization by providing suggestions after the detailed examination.
- To serve as a document of the human resource audit.
- To identify through human resource audit that the HR policies and practices are aligned with the legitimate requirements.
- To provide a platform for continuous improvement.
- To provide a detailed report about the performance of the human resource department.

7.4 REPORT DESIGN AND PREPARATION

Once the human resource audit is done, the report is prepared to outline the performance of the enterprise's policies, procedures, practices and code of conduct. On the basis of these enterprise's policies, procedures, practices and code of conduct, the assessment, results and suggestions are defined.

Designing a report needs diligent planning. Preparing an audit report is not an easy task. The process diligently requires –

- Proper planning
- Organizing
- Collection of data
- Scrutiny of data
- Findings
- Conclusion
- Recommendations

Designing and preparing an audit report must ensure that the report contains the strong suggestions for the organization which will help to align the working of the HR department with the organizational goals. The audit team is responsible to identify the scope and areas of human resource audit. Designing and preparing an audit report requires certain steps.

Every company designs their own process for the preparation of human resource audit reports. The first step always starts with the problem definition, clarity of objectives and scope of the audit. The planning phase of the report writing deals with the variety of questions. It is important to determine the organizational goals Before conducting the audit. The team also decides the methodology and the type through which the audit will be conducted. It is a responsibility of a team to ensure the usefulness and effectiveness of the audit during the whole process.

Here is the systematic approach an organization can follow to conduct an audit and prepare a report -

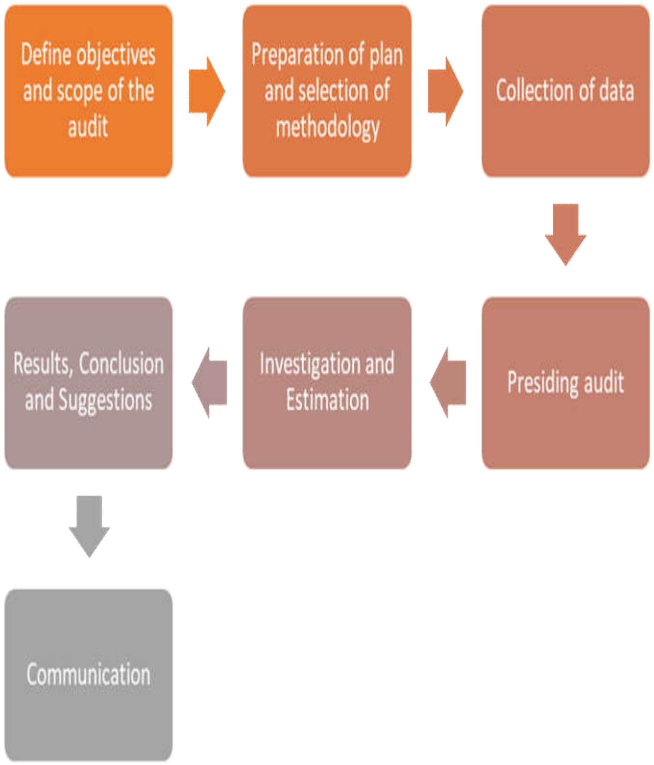

Fig. 7.4: Steps in preparing and designing an audit report

Explanation

The following is the explanation of the above given steps -

Step I - Define objectives and scope of the audit

The first step is to define the objectives and scope of the audit. Many organizations perform audit section wise. The audit is divided into many sections to investigate the process thoroughly. Safety audit, recruitment and selection audit, employee relations audit, welfare policies audit, compensation and benefits audit. The categorization helps the audit team to initiate a detailed investigation. The important aspect is to clarify the purpose of the audit. Objective clarity gives a direction to the team to work in a specific way.

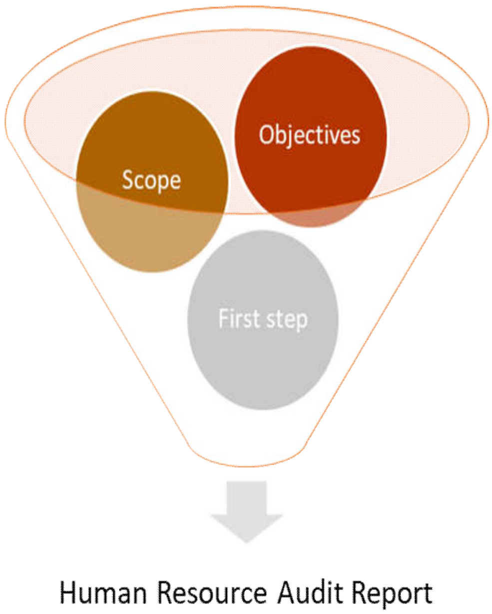

Fig. 7.5 First step in preparing and designing an audit report

Step II - Preparation of plan and selection of methodology

There are various methods through which audits can be conducted. Deciding the method of conducting an audit is important. There are various approaches to conduct audits like comparative approach, statistical approach, compliance approach to ensure the effectiveness of audit. Once the approach is decided, the team can select the various modes through which an audit will be conducted. The methods like -

- Questionnaire method
- Group interview method
- Individual interview method
- Observation
- Compliance method

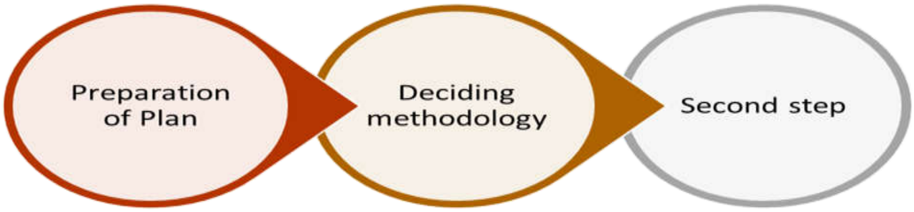

Fig. 7.6 Second step in preparing and designing an audit report

The methodology helps to decide the mode through which data will be collected for the purpose of audit. This step also involves the preparation of a detailed plan. When, what, where, why, what, resources required and available will be discussed and later on prepared.

Step III - Collection of Data

The third step deals with the most important step. In this step, the data is collected through a proper process. What is the target group, from them who will be chosen for interview, the observation criteria, how the things will be noted, various sources of collecting more data, records which will be checked, how the conduction will happen, online or offline mode etc. will be discussed and data will be collected to achieve the objectives of the audit.

After collecting the data, the data related to -

HR policies

Procedures

Practices

Records of employees

Questionnaire will be taken back which were distributed earlier

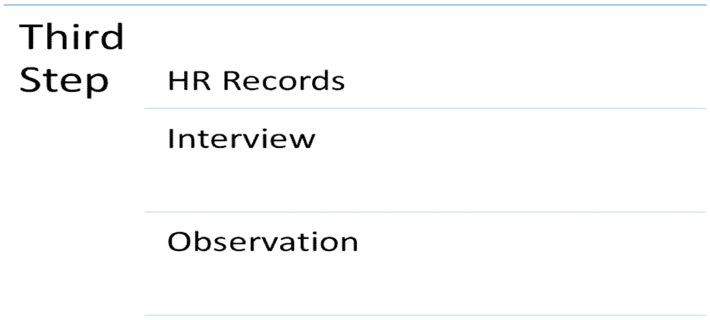

Fig. 7.7 Third step in preparing and designing an audit report

Once the data is collected, the analysis will be done. A thorough analysis by the audit team will require a proper procedure. The effectiveness of the audit depends upon the structured approach followed by the team. The audit will be conducted in the next step.

Step IV - Presiding the Audit

In this step, the audit will finally be conducted by the team. The data is collected in the earlier stage. This step advocates the conduction of audit in the form of examination and evaluation.

01. Employees

02. Investors

03. Customers

04. Consumers

05. Government

06. Suppliers

07. Communities

Step VI - Results, Conclusion and Suggestions

The fourth step in preparing and designing an audit report is the most important step. Because this step will decide the pace of the work of the human resource department in future. In this step, after the audit is conducted the results will be displayed by the audit team of the organization. It is important to know who will be the audience or reader. Before publishing the results, the analysis and examination is done. The report is compiled in a structured format. The team follows a clear structure. The report is displayed -

- Executive summary
- Objectives
- Scope
- Methodology
- Data analysis and interpretation
- Findings
- Conclusion
- Recommendations
- Future action plan

In the section of data analysis and interpretation, the team can incorporate bars, graphs, charts, schedules if needed to present the data collected. On the basis of this data, the results can be drawn. It is expected that the simple and clear language is used to avoid any kind of misunderstanding and confusion. When the report is presented, it is expected that it should be clear, communicate well, concise and understandable by the stakeholders.

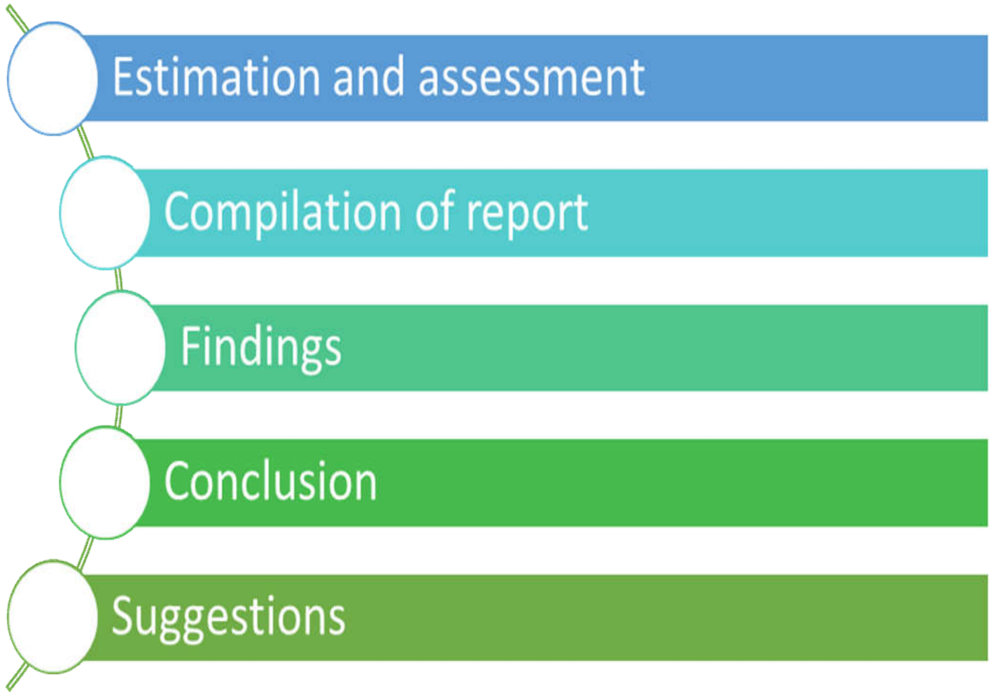

Fig. 7.8: Sixth step in preparing and designing an audit report

This is the most important step of the whole audit process. Preparing and designing an audit report is not an easy task.

7.5 USE OF HR AUDIT REPORT FOR BUSINESS IMPROVEMENT

A human resource audit report is a document which is prepared after the human resource audit. It is a tool which helps to measure the performance of the human resource department and its working. The scope of human resource audit is comprehensive in nature. The human resource audit report serves as an outline which includes the assessment, results and suggestions. It serves as a road map for the improvement of the business processes. The human resource audit report helps organizations to improve their -

01. Practices
02. Policies
03. Efficiency
04. Effectiveness
05. Survival and growth

It serves as an important tool for business improvement. It also helps to review the documentation, systems, procedures, strategies and practices of the organization. For the business improvement in the following ways, the human resource audit report can be used in the following ways -

Fig. 7.9: Use of HR Audit Report for Business Improvement

- **Identification of Gaps**

Human resource audit report helps organizations in identifying the gap between the existing policies and practices and the required ones. The level of audit depends upon the policies and practices of the organization. Audit helps to evaluate the overall working of the organization. It also helps companies to evaluate the major changes which are required to incorporate the companies policies by taking into consideration the internal and external factors.

- **Enhanced Employee Relations**

Industrial relations represents the relationship between the employers and employees. The study of their relationship is a subject matter of industrial relation. It refers to a study of examining the relations between employer and employee, employee and employee and employer and employer. The management represents employers and unions represent employees. Proper evaluation helps the businesses to have an enhanced employee relations for the purpose of improving the business. It is important for an organization to have a basic understanding about the requirements to run. Determining the scope and types of audit helps organizations to cover various aspects

- **Best Practices**

Many organizations are known for their best practices as far as the human resource department is concerned. Human resource audit helps to recognize the improvements and changes that are needed to be incorporated in the working of the human resource department. With the help of a human resource audit report, an organization can adopt the best practices for the human resources of their company. When the comprehensive evaluation of an organization is done by considering the HR Practices, complaints, policies and procedures, a human resource audit report is prepared on the basis of these parameters and accordingly best practices can be framed.

- **Cost Reduction**

Evaluating the management policies to maintain and retain the value of employees plays a significant role in assessing where the organization can improve further to maintain the present level. The cost can be reduced by optimizing the various resources of the organization. The concept of management depicts the importance of 5 Ms for any activity. The five Ms of the management are Man, Material, Machine, Money and Method. Out of these 5Ms, only man is the living asset while rest are the non-living assets. Humans are considered as the most purposeful resource of the organization. If this resource is utilized properly, it can help in reducing costs of the various operations and activities.

- **Minimizing Risks**

At the organizational level, committees are set up to study and understand the problems of the human resource. These committees are working exclusively to understand the working of the human resources. The human resource audit team in the same way works for the better working of the department. When the compliance’s and adherence of the rules, laws and legislation’s are taken care of, it minimizes the risk of getting into any legal trouble or lawsuits.

- **Best Organizational Culture**

Human resource department is the most vital part of an organization. Under the field of human resource management. Human beings are treated as assets. The information, skills, ideas and intuition are managed properly to extract the best from the employees. A human resource audit report helps to develop and encourage a best organizational climate and culture for the people by advocating and recommending the optimum policies for the department.

7.6 SUMMARY

1. A human resource audit report is a document which is prepared after the human resource audit. It is a tool which helps to measure the performance of the human resource department and its working. The scope of human resource audit is comprehensive in nature. The human resource audit report serves as an outline which includes the assessment, results and suggestions.

2. It is important for an organization to have a basic understanding about the requirements to run. The human resource audit ensures that the assessment is done by considering all the important factors and are in adjustment with the predetermined organizational goals, vision and

mission of the organization, legitimate requirements and the fruitful practices.

3. It is important to mention the components of the human resource audit report. On the basis of these components, the report gets a standard format. This standard format ensures that the organization is working towards the continuous improvement goal.

4. Once the human resource audit is done, the report is prepared to outline the performance of the enterprise's policies, procedures, practices and code of conduct. On the basis of these enterprise's policies, procedures, practices and code of conduct, the assessment, results and suggestions are defined.

5. Designing a report needs diligent planning. Preparing an audit report is not an easy task. The process diligently requires Proper planning, Organizing, Collection of data, Scrutiny of data, Findings, Conclusion and Recommendations.

6. A human resource audit report serves as an important tool for business improvement. It also helps to review the documentation, systems, procedures, strategies and practices of the organization.

7.7 SELF ASSESSMENT TESTS

1. What is human resource audit? Explain the various components of human resource accounting.

2. Explain the concept of the human resource audit report.

3. Write down the Purpose of Human Resource Audit Report

4. Why is the report design and preparation important? Explain the various steps of report design and preparation.

5. Explain the Use of HR Audit report for business improvement

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8

RECENT ADVANCEMENTS IN HUMAN RESOURCE AUDIT AND ACCOUNTING

Unit Structure

8.1 OBJECTIVES

After studying this module, you should be able to :

- Know the recent advancements in human resource field
- Study the future trends in the field of human resource audit
- Know the relevance of human resource accounting
- Analyze the important parameters

8.1 INTRODUCTION

8.1.1 FRAMEWORK

Human resource development is an important dimension of human resource management. Acquiring, dealing and developing people are the key indicators of this subject. Organizations are putting efforts to increase the productivity of the employees by simply treating them well. Treating them well involves a systematic process of Procuring, Training, Developing, Maintaining and Controlling the human resource of the organization. Human resource accounting, Human resource audit, Human resource research and Human resource information system are some of the important topics which come under the subject matter of human resource management. Human resource development is now viewed as the fundamental aspect not only for organization but also for the governments of the various nations across the world.

The subject matter of human resource management and development revolves around humans. Change is unavoidable in nature and recurrence is one of its important features. There are various evolution's and changes which are happening right now in the field of human resource accounting and management. Accounting in general sense deals with the process of keeping the financial accounts. The data is organized and summarized in a systematic way for business. The financial decisions are taken on the basis of activity of receipts and payments. In the field of human resource management, the concept of human resource accounting does the same. The decisions related to the personnel policies are taken on the basis of human resource accounting.

Technology and innovations play an important role in the development of this subject. Evaluating the investments done on the human resource is the most complicated task. Companies are doing investments to acquire, develop, retain and manage the human resource of the organization. The role of artificial intelligence is increasing day by day. There is a significant impact of artificial intelligence on human resource management. The objective of any organization is to provide the best resources to human resources. Out of five Ms, man is the only living one who is responsible to manage the other resources.

The subject matter of human resource accounting deals with identifying and allocating budget on human resources. This concept also helps to evaluate the basic cost associated with the employees and the value contributed by them for organization. In response to needs, the concept is working towards the development of human resources.

8.2.1 SALIENT FEATURES

The following points can be understood from the discussion so far -

- Human resource accounting is a broader concept.
- In the field of human resource management, humans are considered as the most purposeful resource of the organization.
- Human resource accounting is one of the fields of human resource management.
- The policies of human resource accounting should be designed to increase the organizational effectiveness.
- Human resource accounting, Human resource audit, Human resource research and Human resource information system are some of the important topics which come under the subject matter of human resource management.
- There is one term in human resource management known as Human Capital. Human capital refers to ascertaining the economic value of knowledge, skills and intelligence of employees.
- In the field of human resource management, the concept of human resource accounting deals with the financial decisions taken on the basis of activity of receipts and payments.
- The contribution of the employee and the investments done on him is evaluated in this field.
- The subject matter is based on some conventions and research.

- Human resource audit is an effective tool to evaluate the performance of the human resource department.
- Audit allows companies to evaluate the human resource department in terms of its -
- Efficiency
- Policies
- Procedures
- Practices

The subject matter also deals with the various dimensions of human resource management apart from these. The human resource accounting and audit ensures that all human resources of the organizations are well coordinated and balanced.

The figure shows the above given points in a summarized form -

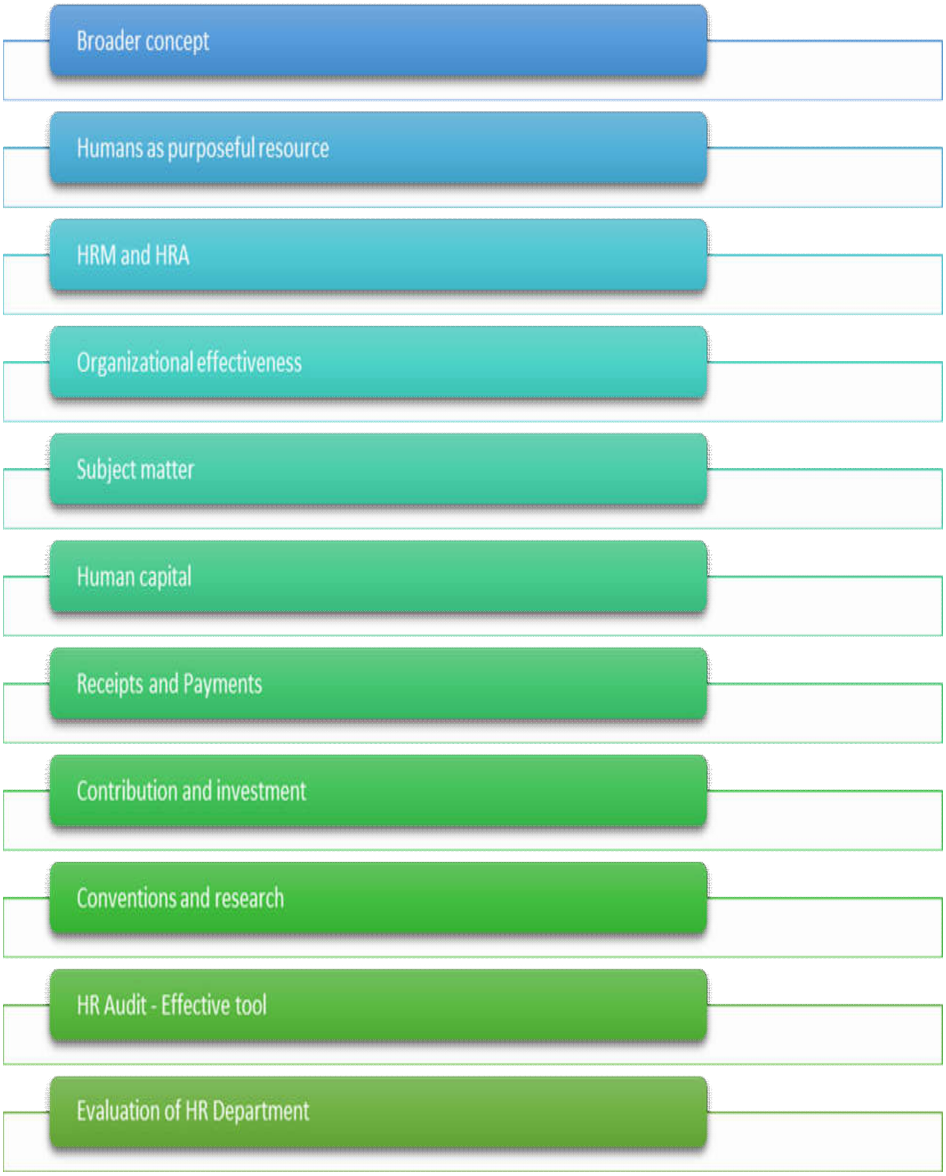

Fig. 8.1 : Salient features of HRA

8.2.2 HUMAN RESOURCE AUDIT AND ACCOUNTING

8.2.1 HUMAN RESOURCE ACCOUNTING

As mentioned in the previous chapters, the concept of considering human resources as a cost or investment is a matter of debate. In a business environment, humans are considered as the most important resource of the organization. Human capital refers to ascertaining the economic value of knowledge, skills and intelligence of employees. The companies invest more and more money to increase the productivity of the employees. The experience, skills and knowledge of the employees is considered as priceless and cannot be measured and shown in any financial statement. But, it can be evaluated in terms of the work done by the employees.

The subject matter of human resource accounting deals with the human resources and their economic value in an organization. The concept of human resource accounting can be categorized into two parts - the narrow concept and the broad concept. The narrow concept deals with the budget thing while the broad concept deals with more activities.

The narrow concept of human resource accounting deals with identifying and allocating budget on human resources. This concept also helps to evaluate the basic cost associated with the employees and the value contributed by them for organization.

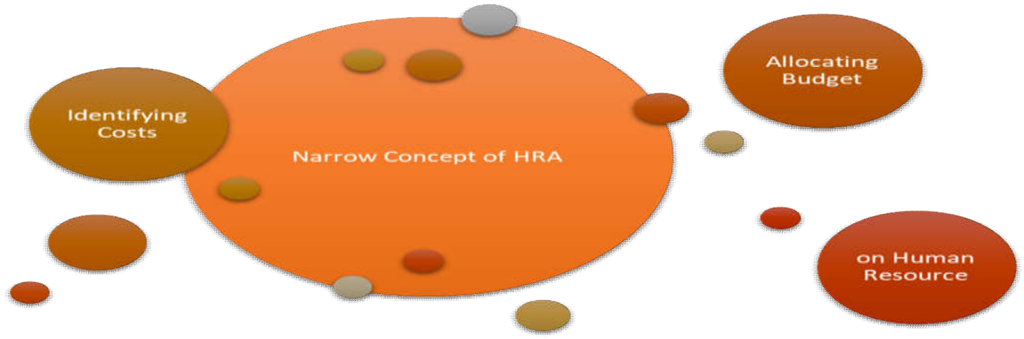

Fig. 1.3: Narrow Concept of Human Resource Accounting

The broader concept of human resource accounting deals with something more comprehensive. Human resource accounting refers to the process of accumulating, evaluating and reporting data about the cost incurred on employees and the value generated by them in the company's profitability. The broad term also includes the expenses incurred on recruitment, selection, employees training and management development, compensation and benefits etc.

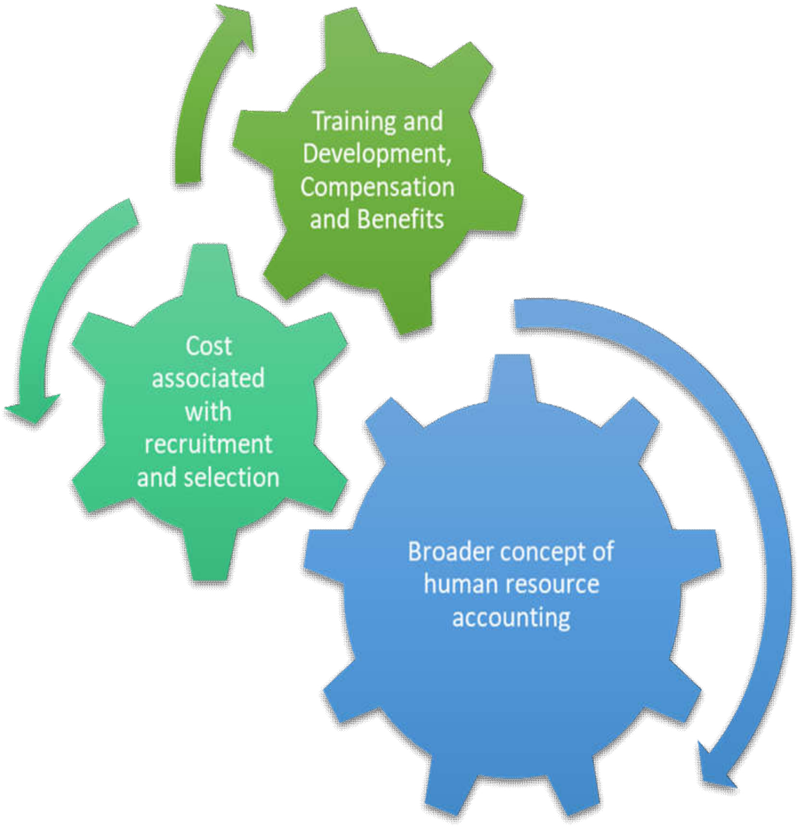

Fig.8.2: Broader Concept of Human Resource Accounting

8.2.2 HUMAN RESOURCE AUDIT

8.2.2.1 CONCEPT AND MEANING

Human resource audit is an effective tool to analyze the performance of the human resource department of an organization. Audit is all about evaluating the relationship between the cost incurred on the department and the benefits in terms of performance, identifying loopholes and correcting the gap to achieve organizational efficiency. The process of human resource audit is used to evaluate and analyze the performance of the human resource department and its resources.

Human resource audits not only evaluate the issues related to the human resource department but also provide a solution to solve the issues and problems. The various aspects which are evaluated are -

- Policies
- Strategies
- Practices
- Procedures
- Methodology

It also helps to review the documentation, systems, procedures, strategies and practices of the organization. The assessment of human resource audit is based on certain issues related to HR policies, procedures and practices of the organization. With the help of human resource audit, companies can identify the issues related to any policy, procedure or practice. Once the issue is identified, solutions can be developed. Human resource audit also helps organizations to reduce the operational costs. It not only deals with the costs but also helps companies to ensure the working and compliance of rules and regulations.

The level of audit depends upon the policies and practices of the organization. Audit helps to evaluate the overall working of the organization. It also helps companies to evaluate the major changes which are required to incorporate the companies policies by taking into consideration the internal and external factors.

8.2.2.2 REPRESENTATION

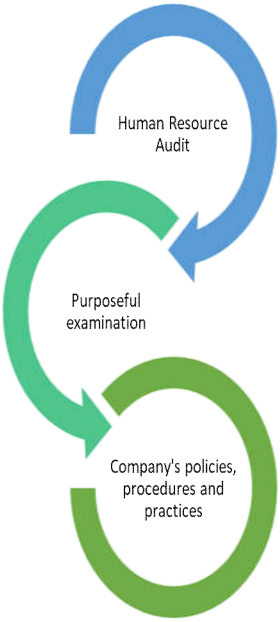

Fig. 8.3: Concept of Human Resource Audit

From the above figure, it is clear that in a general sense we may conclude that a human resource audit is a purposeful examination of a company's policies, procedures and practices. It also covers -

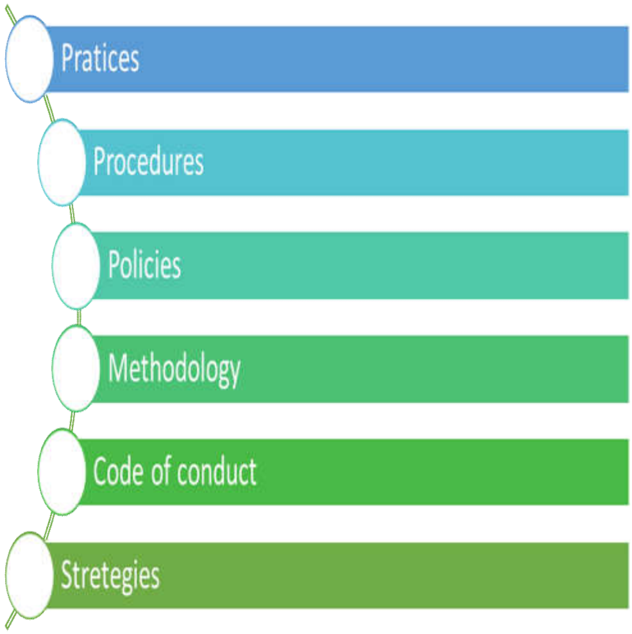

Fig. 8.4: Elements of Human Resource Audit

8.2.2.3 FEATURES OF HUMAN RESOURCE AUDIT

The following are the important features of human resource audit -

Fig. 8.5: Features of Human Resource Audit

1. Human resource audit is a purposeful activity of identifying the performance of the human resource department.

2. Human resource audit is a thorough process of evaluating and assessing the performance of the human resource department.

3. Human resource audit is a systematic examination of the policies, practices and procedures.

4. Human resource audit helps organizations to find the solutions of the problems and issues.

5. It also helps to identify the solutions of the problems and issues.

6. Human resource audit helps to identify the gaps in the process.

7. Human resource audit helps to review the process.

8.3 RECENT ADVANCEMENTS IN HUMAN RESOURCE AUDIT AND ACCOUNTING

Human resource accounting and audit is a growing concept. Considering human resources as an asset is not a new concept. The old philosophy of human resource management is totally different from the new philosophy. The old philosophy focused more on the management of employees while the new philosophy deals with the development of human resources rather than their management only. The concept of return of investment helps to ascertain the cost and the reward associated with it.

It is important for companies to understand that doing investment on people is a different thing but assessing the return on investment is also important. Audit helps companies to track the working of practices, philosophies, policies of the company. It also ensures that the company is going on a good track. As the field of Human resource accounting and audit is progressing, there are many recent advancements and changes which are taking place. A human resource manager is entitled and responsible to take care of these changes.

For the purpose of study, the following recent advancements can be studied -

Fig. 8.6: Recent Advancements of Human Resource Audit and Accounting

When the company spends money on the health, work, training and development of the employees, they expect something in return in terms of growth and development of the organization. It is known to the world that in the long run the organizations are not broken by the money, machines, material, products but by the people. It is important to ascertain the economic costs associated with the employees to calculate the return on investment. In this section, we will see the explanation of these points -

01. Skill Development and Management

Human resource audit is an important process. Evaluating the performance of the human resource department ensures that the organization is not only focusing on the analysis of the department but also working towards the quality control and maintenance. Nowadays, Human resource departments are focusing on skill development programs. An organization gets numerous employees having different personalities.

Some are -

- Responsible - They perform their duties diligently. They are considered as the assets for the organization.
- Irrational - They are the ones who think irrationally. They need a perfect system to get things done.
- Attention seeker - They love to seek attention. These people do not work rather seek attention and try to take credit.
- Friendly - They cannot live alone and enjoy the company of other people. They are extroverts.

Studying these personalities and taking the uniform work from them is an important task. The skill development and management programs have been included under the field of human resource audit to develop a perfect platform for them to work as per the policies and practices of the organization.

02. Remote Learning and Management

Covid 19 has changed the pace of the working of the people. Many companies are still advocating the work from home practice. Work from home requires a proper monitoring system to ensure that the employees are working from home sincerely. The business models are changing. Learning is an important element to run the business as per the competitive world.

Many companies who are giving the facility of work from home are also providing the various learning platforms to the employees. Training and development is a vital element of the human resource department. Companies know that employees working from their respective areas need to learn, adapt and develop their skills. Up skilling is important. The pace of technology is changing. Learning is an important aspect.

To learn new skills, the employees attends various modes like -

- Virtual training programs
- Online courses
- Online classes
- Video Lectures
- YouTube
- Online Exams etc.

Online makes things easy. Employees from anywhere if they have good connectivity can learn many things. The present era is seeing and observing that there is an upward trend in remote learning. The management of remote learning is also very important. For the purpose of audit, a HR manager has to ensure that the people are learning right, doing right and managing right.

03. Data Maintenance

For the purpose of evaluation, data needs to be collected and maintained. Companies pay huge amounts to sustain and retain good people and this is possible because at the right time the company was able to know the real worth of the employee. The output generated by the employee and the input contributed by the firm are important metrics. The ratio between the cost and the benefit received is calculated to know the value of money spent on employees.

A proper policy is required to ascertain the economic value of an employee. When the net benefits are subtracted from the cost incurred by the organizations, the true return comes into picture. The hierarchy of the organization determines the role every individual will play in an organization. To simplify the work of the organization, the three levels of management significantly play their role in the working. The top level, middle level and the lower level of the organization works on the principles of the management.

For the audit purpose, nowadays companies are maintaining data. The data maintenance refers to the use of data analytics for the purpose of decision making. Data analytics is a term which is more technical in nature. The study is required to assess the gap between the skills acquired and required. With the help of following things, the companies are driving data -

- Data automation
- Chat GPT
- Artificial Intelligence
- Sensory devices

The companies are shifting their focus on automation to avoid repetition of certain works. The purpose is to engage the employees in important activities rather than on the monotonous and repetitive work. The data driven technology makes the work of organization easy and more accessible.

04. Categories of Audit

The audit is categorized on the basis of some aspects to make the process easy and effective. The human resource department can track the following metrics. On the basis of these metrics, they can track where their investment is going and whether it is generating fruitful results or not. The metrics like performance of the employee, quality of the work, understanding if the HR practices and policies are efficiently working, impact of executive development, pre and post impact of training and change in behavior and knowing if the strategies are working.

The following types of audit can be used to cover the most specific areas of business -

- Policy Audit - This type of audit helps companies to review the policy of the company. In this type of audit, all the stakeholders are involved.
- Code of Conduct - Code of conduct is required to run any business. This audit ensures that the code of conduct of the company is properly framed and being followed by each and every person.
- Strategic Audit - Strategies are framed for the long term survival and growth of the company. In this type of audit, all the stakeholders are involved to review and assess the strategies.
- Work Audit - This type of audit ensures the proper evaluation of the work standards and the actual work done by the people.
- Culture Audit - This audit ensures that the work culture of the organization is smooth and healthy.
- Functional Audit - This audit deals with the functionality of the organization. The area of this type of audit is very vast.

05. Team Building Tasks

Organization is a group of people who work together to achieve common goals. After the end of covid 19, the people started resuming work for the office physically. It was difficult for them to get adjusted to the new environment. Virtual meetings become office meetings. They faced a significant change. Balancing their relationship with colleagues was difficult. The human resource department was entrusted with the following tasks -

- Team spirit
- Collaborations
- Connections
- Online and offline work balance
- Employees conveyance
- To and fro facility

With the advancement in technology, the tracking of employees has also become a work for organizations. The presence of informal groups and formal groups is a common thing. Sometimes, the strong presence of informal groups affect the working of the organization. People focus more on their interest group and friendship group. Team building activities help people to understand the relevance of their formal group and why their bonding is important for the achievement of organizational goals.

The covid 19 pandemic has hit all. The people are in the process of seeking mental support and this balance can be achieved through team building activities.

06. Audit of Virtual Activities

Many companies are still offering work from home facilities to their employees. When an employee come to office, the organization have mechanism to track their -

- Attendance
- IDs
- Activities
- Monitoring through physical visits
- Through CCTV

If the employee is working from home, it becomes difficult for companies to evaluate their activities. This recent advancement in the field of human resource audit is helping companies to develop their own model to track the activities of their employees who are working from home. Tracking of their activities is important.

Few companies compel their employees to show some proof of their work during the official time.

8.4 ANALYSIS OF THESE TRENDS

Skill development is a buzzword today. People having different personalities and work methodology work together. Studying these personalities and taking the uniform work from them is an important task.

The tasks and actions which create policies are vital to be understood and framed. This advancement in the field of human resource audit is definitely going to be fruitful.

Work from home requires a proper monitoring system to ensure that the employees are working from home sincerely. The business models are changing. Learning is an important element to run the business as per the competitive world. Remote learning ensures that the employees skill, knowledge and attitude is improving with the change in time.

The data maintenance refers to the use of data analytics for the purpose of decision making. Data analytics is a term which is more technical in nature. The study is required to assess the gap between the skills acquired and required. The data driven advancement in the field of human resource accounting has successfully proved itself to be effective.

The reports of HR audits are increasingly being used by the experts to assess the working and potentiality of the organization. Various types of audits help managers to cover all types of activities. The purpose of audit is not confined to only policies but also it majorly covers

- Practices
- Culture
- Subculture
- code of conduct
- SOP etc.

After covid 19, the struggle after joining office was detaching people from each other. Team building activities at the office helps in audits to ascertain the pre and post behavior of employees. If the employee is working from home, virtual team building activities are also conducted to make them feel they are part of a team and not working alone.

Tracking the record of employees is not easy. Those who are working virtually have to be taken into the track of their work. It is a huge task. In the field of human resource management -

- Virtual attendance
- Tacking login time
- Tracking logout time
- Internet issues
- Virtual time sheets

Performance is taken into consideration. This practice is important for the purpose of human resource audit.

8.5 FUTURE TRENDS

With the ongoing trends, the following trends are expected to come underway in the field of human resource accounting and audit -

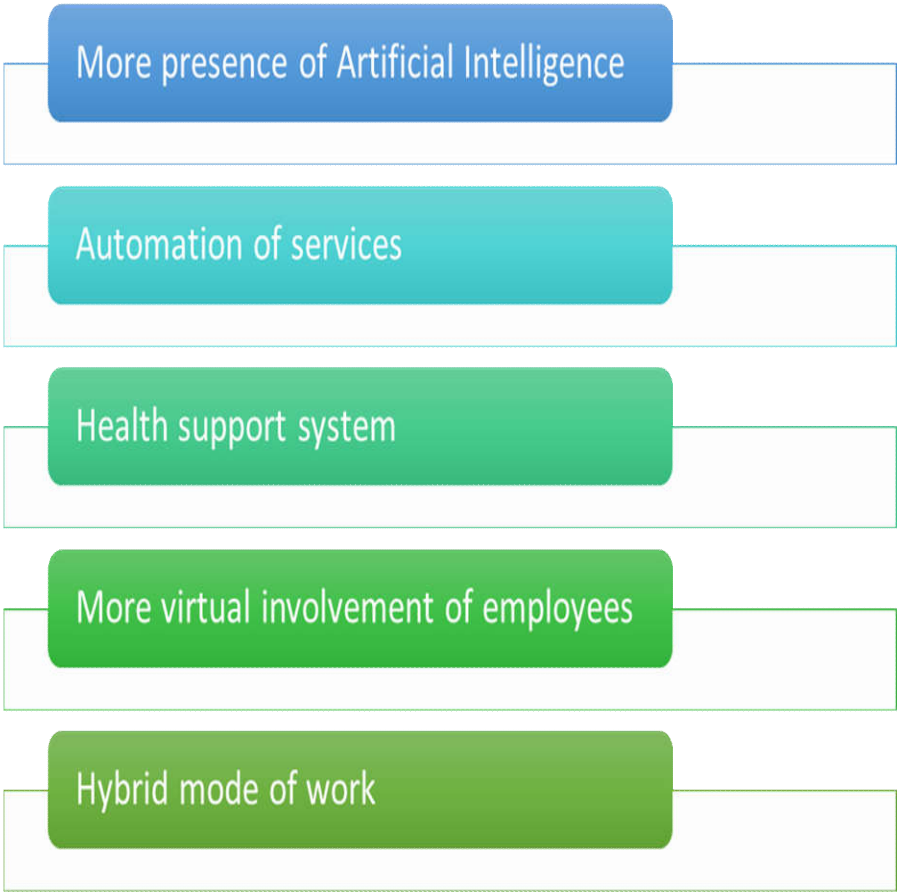

Fig. 8.7: Future Trends

8.6 SUMMARY

- Human resource accounting, Human resource audit, Human resource research and Human resource information system are some of the important topics which come under the subject matter of human resource management. Human resource development is now viewed as the fundamental aspect not only for organization but also for the governments of the various nations across the world.

- The subject matter also deals with the various dimensions of human resource management apart from these. The human resource accounting and audit ensures that all human resources of the organizations are well coordinated and balanced.

- Human resource audit is an effective tool to analyze the performance of the human resource department of an organization. Audit is all about evaluating the relationship between the cost incurred on the department and the benefits in terms of performance, identifying loopholes and correcting the gap to achieve organizational efficiency. The process of human resource audit is used to evaluate and analyze the performance of the human resource department and its resources.

- Audit helps companies to track the working of practices, philosophies, policies of the company. It also ensures that the company is going on a good track. As the field of Human resource accounting and audit is progressing, there are many recent advancements and changes which are taking place. A human resource manager is entitled and responsible to take care of these changes.
- Skill development, team building activities, data driven HR based activities are some of the recent advancements in the field of human resource management. After covid 19, the struggle after joining office was detaching people from each other. Team building activities at the office helps in audits to ascertain the pre and post behavior of employees. If the employee is working from home, virtual team building activities are also conducted to make them feel they are part of a team and not working alone.

8.7 SELF ASSESSMENT TEST

1. What is a Human resource audit? Explain the important features of human resource audit.
2. Point out the difference between human resource audit and human resource accounting.
3. Explain the Recent Advancements in Human Resource Audit and Accounting
4. Write down the analysis of the Recent Advancements in Human Resource Audit and Accounting
5. Can you point out the future trends in the field of Human Resource Audit and Accounting?
6. Explain the important elements of Human Resource Audit and Accounting

https://www.researchgate.net/publication/235318624_Current_Issues_Recent_Advancements_and_Future_Directions_in_Human_Resource_Accounting

ttps://internalaudit360.com/the-evolution-of-hr-audits/

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9

CASE STUDIES AND PRESENTATIONS

Unit Structure

9.1 Objectives

9.2 Introduction

9.3 Case Study

9.4 Presentations

9.5 Topics for Assignment

9.1 OBJECTIVES OF THE UNIT

After studying this module, you should be able to :

- Understand the concept of Case studies
- Measure the impact of discussion of case studies
- Know how presentation topics helps students in gaining self confidence
- Know how does case study helps in developing decision making ability

9.2 INTRODUCTION

The learning objective of the subject HR Audit is Understanding HR Accounting and Audit with study of various instruments such as HR Score Card. The other objectives for the students is learning to calculate HR cost, investments and return on investments and preparing HR Audit Reports.

The subject of HR Audit comprises the following chapters -

- Introduction to Human Resource Accounting
- Human Resource Costs
- Return on Investments
- Human Resource Accounting System
- Human Resource Scorecard
- Human Resource Audit

- Human Resource Audit Report
- Recent Advancements in Human Resource Audit and Accounting

The last chapter of this subject is case studies and presentations. The purpose of this chapter is to make the students develop decision making ability and self confidence.

9.3 CASE STUDY

In the present section, we will see -

- What is case study?
- The process of solving a case study
- How to draw conclusions?
- Case Studies

Case study is a technique of solving the situations by involving the people in the discussion. It is a process of doing the detailed examination or evaluation of a situation, event or policy to understand, explore, and illustrate real-life scenarios or problems.

The following process is usually followed to discuss and solve a case study -

Step I - Problem Recognition

Step II - Drawing Contextual information

Step III - methodology to be discussed

Step IV - Presentation and discussion of data

Step V - Conclusion

It is said that in every case study, there is a protagonist. He/she is one who is the main initiator of the case study or we can say the main leader or actor. By getting into his shoes, through his perspective, we can draw the conclusion of the case study. In the next section, we will explore the various case studies and students are expected to discuss.

CASE STUDY - I

Tanmay Corporation has a workforce of 7,000 employees across various departments and locations. The current HR strategies focus on HR Policies but lack an emphasis on talent development and retention. The company has faced challenges in retaining talent and maintaining high productivity levels. The corporation is experiencing a decline in productivity despite recruiting top talent. The HR department aims to implement human resource accounting principles to assess and enhance the value of its workforce.

Questions for discussion -

1. What is the problem in this case?
2. What is your conclusion about this case?
3. What policies will you recommend to implement retention strategies and minimize costs?

CASE STUDY - II

Rohan Chemicals, a medium-sized manufacturing company, is facing challenges with escalating human resource costs impacting its bottom line. The company employs 600 individuals across various departments and is keen on understanding, managing, and optimizing these costs effectively. They are planning to employ 500 more employees.

With an expanding workforce, they are facing challenges in managing and controlling their HR costs effectively. The HR department has been tasked with optimizing expenses without compromising on talent acquisition, retention, or overall employee satisfaction.

Questions for discussion -

- Can you recognize the problem in the above case?
- How can strategies be developed to reduce human resource costs?
- How can they optimize the human resource costs?

CASE STUDY - III

Aditi Company is in the sector of a multinational retail chain. The company wanted to assess the effectiveness of its recent marketing campaign and its impact on sales and brand visibility. The company had invested a significant budget in various marketing channels, including social media, television ads, and influencer partnerships. There are some challenges on the part of the company. The first challenge is the company lacks a clear methodology to measure the ROI of its marketing efforts accurately. They are failing in understanding consumer behavior.

Questions for discussion -

1. Apart from the challenge mentioned, can you find out the biggest challenge of the company?
2. Why is brand visibility important in this case?
3. How can they calculate return on investment?

CASE STUDY - IV

Company AB, a growing multinational corporation, recognized the importance of effectively managing its human capital. To enhance strategic decision-making related to workforce management, the company decided to implement a Human Resource Accounting System. Implementation of a Human Resource Accounting System is a challenging task as they have not done this before. Company is lacking visibility to quantify and track the value of its human resources.

The other issue is resources to be allocated and how to manage the talent. Retention is also an issue.

Questions for discussion -

1. How to quantify human capital?
2. List out the more challenges which a company may face in implementing a human resource accounting system.
3. Can you suggest some methods to measure the return on investment of AB Company.

CASE STUDY - V

Raj Corporation is a multinational tech company that wants to align its HR initiatives with overarching business goals. The HR team collaborated with senior management to identify key organizational objectives. Based on the identified objectives, the HR team determined specific KPIs to track progress. These included turnover rates, time-to-fill vacancies, employee satisfaction scores, training program effectiveness, and recruitment costs.

Monthly and quarterly reviews were conducted to analyze the gathered data. Trends, successes, and areas needing improvement were identified, allowing for timely adjustments in HR strategies.

The implementation of the HR Scorecard not only transformed the HR department's functioning but also contributed significantly to Raj Corporation's overall performance.

Questions for discussion -

1. Can you trace out the problems of this case?
2. Do you feel the HR Scorecard is playing an instrumental role in this case study?
3. If you are a manager of this company, how will you determine the strategy to align the HR practices with business goals?

CASE STUDY VI

Varun Enterprises engaged an external HR consultancy firm to conduct a comprehensive HR audit. The primary objectives were to assess compliance with labor laws, review HR policies and procedures and practices. Varun Enterprises engaged an external HR consultancy firm to conduct a comprehensive HR audit. The primary objectives were to assess compliance with labor laws, review HR policies and procedures. The audit results were compiled into a detailed report highlighting areas of strength and areas needing improvement.

Based on the audit report, Varun Enterprises created an action plan with timelines and responsibilities. They updated HR policies and conducted training for HR staff.

Questions for discussion -

- Was there any problem in the company? Can you find out?
- Do you feel the HR audit was needed?
- What results were expected to come out after the audit?

CASE STUDY VII

The HR department of DH Company recognized the need for a comprehensive audit to evaluate existing HR practices and identify areas for improvement. An internal audit team, in collaboration with an external HR consultancy, conducted a thorough examination. This involved interviews with HR staff, reviews of documentation, analysis of HR systems and databases, and surveys to gather employee feedback.

A team member was not happy with the policy of audit. When the meeting was going on, he took objections and raised some questions on the process of audit.

Questions for discussion -

- What would you have done if you were there as a manager?
- There was a problem related to the audit report or are the people not happy with the company's policies?
- What are the main issues?

CASE STUDY VIII

Ivana Technologies Private Limited recognized the need to modernize its HR audit and accounting practices to align with evolving industry standards and technological advancements. The company has invested in state-of-the-art HR management software equipped with AI-driven analytics, allowing real-time data collection, analysis, and predictive modeling. The company employed big data analytics tools to analyze vast volumes of HR-related data.

This modernization and new trends has created a fera among employees that their job will be replaced by Artificial Intelligence. Though, the intention of the company was to enhance the efficiency and reduce the routine work.

Questions for discussion -

1. What are the issues of this case?
2. Does the company fail to communicate the HR policies and relevance of new trends to the employees?
3. If you were a part of this part, would you have felt the same?

9.4 PRESENTATIONS

Giving presentations, assigning roles to the students are some of the important techniques of teaching learning evaluation. In the field of human resource management, students need to understand the concepts and application of these concepts more realistically and practically.

The following are the topics of presentations that can be given to students to encourage their direct participation in the whole process of teaching learning evaluation.

1. Human Resource management in changing world
2. Human Resource Audit and Company's Policy
3. HR Scorecard and Performance Evaluation
4. Balanced Scorecard and HR Scorecard
5. AI: Boon or Bane
6. Human Capital Management
7. Aligning HR Strategies with business growth
8. Creating a stress-free environment Human Resource Audit
9. Customer-centric HR practices
10. Innovative Human Resource Accounting
11. Paperless HR Accounting System
12. Creating a stress-free environment for Audit
13. Customer-centric HR practices
14. Developing employees for Accounting
15. Headhunting

Apart from these, this topics from the syllabus can be assigned to students

- Human Resource Information System
- Human Resource Investment
- Human Resource Costs
- Return on Investments
- Human Resource Accounting System
- Human Resource Scorecard
- Human Resource Audit
- Human Resource Audit Report
- Recent Advancements in Human Resource Audit and Accounting

9.5 TOPICS FOR ASSIGNMENT

The following topics can be assigned to students for the purpose of assignment as a part of assessment -

- Defining HR accounting and its role in quantifying the value of human capital.
- Discussing various methods used to measure and value human capital.
- Analyzing how HR accounting aligns with and supports organizational strategic planning.
- Exploring challenges and strategies in representing human capital in financial reports.
- Exploring the relationship between effective human capital management and financial performance.
- Discussing ethical considerations in valuing human capital.
- Exploring how ethical practices influence HR accounting methodologies.
- Comparing HR accounting practices across different countries and cultures.
- Exploring emerging trends and innovations in HR accounting, including AI, data analytics, and predictive modeling.
- Discussing the relevance of human capital valuation in attracting investors.

- Defining HR audit and its significance in organizational development.
- Analyzing how HR audits have evolved to meet contemporary business needs.
- Relevance of HR Audit Report
- Exploring advancements in technology and analytics affecting HR audits.
- Analyzing how HR audits contribute to risk identification and mitigation in organizations.
- Exploring methodologies for evaluating the return on investment.

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